

FINANCIAL STATEMENTS

Year ended 31st December 2006

APS Alpha Fund



APS Asset Management Pte Ltd

APS FUNDS - APS ALPHA FUND

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20 Cecil Street
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- Solicitors to the Manager** : **Rodyk & Davidson**
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Investment Review for Year Ended 31st December 2006

Economic and Market Background

Asia equity markets continue their strong performance in 2006, with most bourses ending the year at or near record highs. The stronger markets for the year as measured by the MSCI index were China (+83%), Indonesia (+75%), Philippines (+60%), and India (51%). The weaker markets were Pakistan (+4%), Thailand (+12%), Korea (+13%), and Taiwan (+21%). The above performances of the Asia bourses reveal two clear takeaways for the year. The first is that investors were clearly favouring the underdeveloped markets with large population like China, India and Indonesia. The second is that even the poorest performing markets, with the exception of Pakistan, still returned double digits. We note however, that there was a major correction across all markets in May and June. The corrections were rapid, with most markets correcting between 15% – 25% over just one and a half months' time. While returns have been great, investors were still grappling with major issues including the expected slowdown of the U.S. economy and its twin deficits, a possible slowdown in China and oil prices that remain high.

Message from CIO

2006: it was the best of times and it was the worst of times for Asian active managers. A year when everything seemed possible – and nothing seemed possible. A mixed year for many active managers, to say the least.

For APS, our China A-share fund outperformed by 22.59%, our Japan fund outperformed by 8.75%, but our Asian ex-Japan product underperformed by 14.03% versus market benchmark. As we manage more assets in the Asian product, we will probably have to consider 2006 to have been a poor year for APS.

Asian equities attracted lots of liquidity from both global and domestic investors, aided by a benign economic and political environment in the region. The surge of liquidity into Asia was probably the strongest after the last Asian financial crisis, which resulted in a PER expansion market. Growth in corporate earnings was moderate, however, and could not have accounted for the market's steep rise. Another notable market influence was the continued presence of strong commodity prices and the attending impact on sectors and stocks. What was new last year though was the continual influx of speculative money – hedge funds in particular – and some long-term money into most exchange-traded commodities.

Investment Review for Year Ended 31st December 2006

All these had huge implications for asset managers like APS. It made us think hard what our investment strategy should be going forward. As the pressure to perform has increased in recent years, investment time horizons appear to have shortened for every party in the investment business.

As a manager, we do not make explicit macro-forecasts. As our manufacturing companies have struggled over the last two years, we have been criticized by a few clients for not having a view on commodities, especially when our exposure to manufacturing companies is high. Such criticism might seem reasonable especially when our results fell short of expectations. We can only contend that we do not have the talent to forecast those things. Internally, we do believe that commodity prices will not rise forever, that manufacturing companies will adjust to them, and that consumers will eventually have to pay for the higher costs. The question is: will manufacturing companies continue to invest when returns on investment fall below their required return on capital year after year?

The shortened time horizon, it would seem, was an already prevalent phenomenon during John Maynard Keynes' time. He said, "Investors, in fact, are largely concerned, not with making superior long-term forecasts of the probable yield of an investment over its whole life, but with foreseeing changes in the conventional basis of valuation a short time ahead of the general public. They are concerned, not with what an investment is really worth to a man who buys it 'for keeps', but with what the markets will value it at, under the influence of mass psychology, three months or a year hence. Moreover, this behavior is not the outcome of a wrong-headed propensity. It is an inevitable result of an investment market organized along the lines described. For it is not sensible to pay 25 for an investment of which you believe the prospective yield to justify a value of 30, if you also believe that the market will value it at 20 three months hence." His conclusion is that day-to-day fluctuations in the profits of existing investments, which are obviously of an ephemeral and non-significant character, tend to have an altogether excessive, and even an absurd, influence on the market.

It is no surprise that Asian markets tend to be a particular victim of this affliction, because investors tend to have short memories. The Japanese bear market of the 1990s, the 1997-98 Asian financial crisis and the 2000 bursting of the TMT bubble seem to be irrelevant today with little impact on investors' psyche. They seem to instead be focusing recently on stocks which they predict will be snapped up when liquidity flows into Asia. Observing this trait in the past, Keynes used a rather teasing metaphor: "Professional investment may be likened to those newspaper competitions in which the competitors have to pick out the six prettiest faces from a hundred photographs, the prize being awarded

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to the competitor whose choice most nearly corresponds to the average preferences of the competitors as a whole; so that each competitor has to pick, not those faces which he himself finds prettiest, but those which he thinks likeliest to catch the fancy of the other competitors, all of whom are looking at the problem from the same point of view. It is not a case of choosing those which, to the best of one's judgment, are really the prettiest, nor even those which average opinion genuinely thinks the prettiest."

Experience has taught us that sanity and caution should be the order of the day when liquidity drives up everything in sight, especially those stocks that are in favour. But again, investors suffer from short memories. Join the fun when the party is still on, some would argue, as if they would know when the party will end. To stay out of the party and miss out on the fun is a lonely activity that not many *Homo sapiens* have adapted to. David Swensen, CIO of Yale Endowment Fund, however, has this advice for us: "Winners should be viewed suspiciously, with consideration given to reducing or even eliminating previously successful strategies. Losers should be eyed hopefully, seen as potential sources of future gains for the portfolio. Immediate gratification should not be expected. In fact, going against the grain will likely appear foolish in the short run as already cheap assets become cheaper, causing the true contrarian to appear fundamentally out-of-sync with investors more successfully in tune with the market."

To be a contrarian investor is often an intellectually and emotionally difficult thing to do. To resist buying stocks that the herd is rushing towards is not something many of us can do. For the courageous, it can become emotionally difficult and stressful when contrarian bets continue to be seemingly bad investments for extended periods of time. At such depressing times, some solace can be again sought from Keynes who said: "For it is the essence of his behaviour that he should be eccentric, unconventional and rash in the eyes of average opinion. If he is successful, that will only confirm the general belief in his rashness; and if in the short run he is unsuccessful, which is very likely, he will not receive much mercy. Worldly wisdom teaches that it is better for reputation to fail conventionally than to succeed unconventionally."

After 25 years as an active manager, I am now convinced that there are a few things that are important in this business.

First, one must take a long-term view of things and not be unduly concerned with the daily newspapers and Bloomberg reports. They, unfortunately, have a strong influence on mass psychology and hence exert enormous pressure on us to respond. Implicit in taking a long-term view is not to forecast the short-term

Investment Review for Year Ended 31st December 2006

variables at all because it is a losing venture in the long run. Warren Buffet once said, "We've long felt that the only value of stock forecasters is to make fortune tellers look good. The fact that people will be full of greed, fear or folly is predictable, the sequence however is not."

Second, one has to take a contrarian approach – an almost necessary but not sufficient condition for success. Given the way the herd instinct manifests, the most undervalued stocks tend to be found amongst the forgotten and disliked out-of-favour market segments. Efforts in searching for these unpolished gems, however, must be supported by a set of proven and thoughtful investment principles which can be applied diligently, rigorously and consistently in its research process. Such research efforts are undoubtedly more essential and crucial to contrarian positions than normal investments.

Third, one needs a first-class team that is skilled, passionate, diligent, honest, and, last but not least, has lots of common sense. An investment team is in many ways like a soccer team where the team manager will do his utmost at every transfer window to bring in new talent. In this respect, the need for APS to continually renew and replenish talent is a foregone conclusion.

Fourth, a successful active manager must not manage too much assets because assets and alphas are like dogs and cats--they don't get along very well. One of the lessons we have learnt is that assets under management must not be allowed to grow too quickly. As we have every intention to be a quality active manager, we will soon decide appropriate asset caps for our products. In the final analysis, it makes more business sense to have a small pool of productive assets than have lots of unproductive assets. Active managers take the greatest pride and derive most professional satisfaction when their bets pay off.

2007, in our humble opinion, will be a watershed year for APS. We have to admit that we have made one or two (investment) missteps in the recent past, and will focus on doing what it takes to regain our footing. But we will not buy the past winners. As we are entering the late stage of the bull market cycle, the 5th year to be precise, we think that the laggards have a better chance of outdoing the stars. At APS, we will favor stocks whose valuations are attractive and whose earnings are resilient or recovering.

We will dedicate the year to regaining whatever shine we have lost and look forward to taking stock of unequivocally better times by year-end.

Investment Review for Year Ended 31st December 2006

Portfolio Activities

Korea Market

In the Korean market, the most significant activity for the period was a reduction of our exposure to Samsung Electronics. We think that consensus earnings estimates for the stock are too high given the weak NAND environment, price cuts in TFT-LCD, and potentially higher competitive pressures in handsets. We also reduced our exposures in our two banking stocks, namely Kookmin Bank and Hana Financial Group. We believed the excellent outperformance achieved in the last 12 months means that valuations are no longer that compelling. Hence, the reduced weightings are to reflect the lower upside expected going forward. We reduced our exposure to Kia Motor as the strong outperformance has reduced potential future upside. In addition, the strong Korean won also meant that near term earnings will be under pressure. We bought into Lotte Shopping during their initial public offering. Lotte Shopping is a strong company in the Korea retail industry. It has a dominant position in the department store business with a dominant market share of about 40%, twice the size of its next biggest competitor. We think its strong position in the department store business is unlikely to be challenged in the foreseeable future, and will provide attractive strong cash flows to the group. Additionally, the company is expanding in the fast growing discount store business which will provide an attractive growth profile.

Taiwan Market

In Taiwan, we decided to sell our exposure in Basso. Fundamentals for Basso have deteriorated due to a higher competitive environment emerging. We added to our position in Hon Hai Precision and Foxconn Technology given our conviction on their improving fundamentals. We added two new stocks, namely Mitac International and Wistron Neweb. Mitac International is involved in both PC/server assembly and GPS (Global Positioning System) devices production which are high growth businesses. Wistron Neweb produces satellite communication equipment such as satellite radios for Sirius and satellite LNB (low noise block) receivers for Direct TV in the United States.

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Hong Kong Market

In Hong Kong, we added China Telecom and Foxconn International to the portfolio. China Telecom is the largest fixed line operator in China. We expect the company to be awarded a mobile operator licence soon which will transform the growth profile for the company and which will likely lead to a re-rating. Foxconn International is the largest handset assembler serving tier-one clients like Motorola and Nokia. We expect the company to post strong growth in the next few years.

Singapore Market

Over in Singapore, we added our exposure in Hard Disk Drive (HDD) component manufacturers to the portfolio. We added Unisteel because of its favourable growth strategy. Its core HDD business is likely to drive the company's 10-15% growth in the next 2-3 years, aided by the new handset business which could potentially be a new growth kicker. During the year, we increased our exposure in Seksun as the company is well-positioned to benefit from the merger between Seagate and Maxtor.

On the other hand, we sold our position in Venture because the company's core business printer segment is expected to be weak. Volume demand had been weaker than expected due to fierce competitive pressures at their customers' end. We also sold out of Guangzhao Industrial when we learnt that management had disappointed investors by missing almost every milestone they had promised earlier. Lingering uncertainties surrounding the company had further clouded earnings visibility.

China Market

In China, we added Shenzhen Chiwan Wharf (SCW), a company which principally engages in the provision of container and bulk cargo loading and unloading, land transportation, tug boat transportation and shipping brokerage services in Chiwan Wharf, Shenzhen, Guangdong Province, China. We think it is well positioned to ride on the continued economic growth in the Pearl River Delta region. The stock has underperformed because of concerns that aggressive expansion plans among other ports in the region will lead to an overcapacity situation over the next few years. However, we believe that competition will be rational due to an oligopolistic market structure. Furthermore, SCW's better

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location, deeper water and better access to the hinterland and sea, viz-a-viz its competitors, means that it should be able to maintain healthy utilization rates.

Thailand Market

In Thailand, we added Siam Commercial Bank due to its attractive valuations post the market sell-off. The Bank of Thailand had earlier instituted capital controls to curb speculative fund inflows and stem the Baht's appreciation.

Malaysia Market

We bought IJM, a well managed construction company, as we felt the construction market in Malaysia had stayed dormant for a long time. The government is compelled to pump-prime the economy to get the 9th Malaysian Plan going and to prepare the economy for the coming election in 2008/2009. In addition, IJM is a well-managed company with a growing exposure in the construction and property development in India. IJM's track record in the Indian construction scene has been outstanding and the company has been able to earn good, sustainable margins.

Outlook & Strategy

While the Asian markets will remain challenging going forward, we believe the portfolio that we have constructed is well positioned to create steady long-term value. The performance of stocks and portfolios ultimately depend on the operating performance of the underlying businesses. As such, fundamental business analysis will remain our key focus and main source of long term portfolio value creation.

Report of the Trustee

The Trustee is under a duty to take into custody and hold the assets of APS Funds - APS Alpha Fund in trust for the unitholders. In accordance with the Securities and Futures Act (Cap 289), its subsidiary legislation and the Code on Collective Investment Schemes (collectively referred to as the “laws and regulations”), the Trustee shall monitor the activities of the Managers for compliance with the limitations imposed on the investment and borrowing powers as set out in the Trust Deed in each annual accounting period and report thereon to unitholders in an annual report which shall contain the matters prescribed by the laws and regulations as well as the recommendations of Statement of Recommended Accounting Practice 7 “Reporting Framework for Unit Trusts” issued by the Institute of Certified Public Accountants of Singapore.

To the best knowledge of the Trustee, the Manager has, in all material respects, managed the Fund during the year covered by these financial statements, set out on pages 14 to 27, comprising the Statement of Total Return, Balance Sheet, Portfolio Statement and Notes to the Financial Statements, in accordance with the limitations imposed on the investment and borrowing powers set out in the Trust Deed, laws and regulations and otherwise in accordance with the provisions of the Trust Deed.

For and on behalf of the Trustee
RBC Dexia Trust Services Singapore Limited

Dominique H.A.H. Draux
Managing Director

Singapore
30th March 2007

Statement by the Manager

In the opinion of the directors of APS Asset Management Pte Ltd, the accompanying financial statements set out on pages 14 to 27, comprising the Statement of Total Return, Balance Sheet, Portfolio Statement, and Notes to the Financial Statements are drawn up so as to present fairly, in all material respects, the financial position of APS Funds - APS Alpha Fund APS Funds - APS Alpha Fund as at 31 December 2006 and the total return for the year then ended, in accordance with the recommendations of Statement of Recommended Accounting Practice 7 "Reporting Framework for Unit Trusts" issued by the Institute of Certified Public Accountants of Singapore.

At the date of this statement, there are reasonable grounds to believe that APS Funds - APS Alpha Fund will be able to meet its financial obligations as and when they materialise.

For and on behalf of directors of
APS Asset Management Pte Ltd

Pieter van Putten
Director

Singapore
30th March 2007

Auditors' Report to the Unitholders of APS Funds - APS Alpha Fund (Constituted under a Trust Deed in the Republic of Singapore)

We have audited the financial statements of APS Funds - APS Alpha Fund (the "Fund"), which comprise the Balance Sheet and Portfolio Statement as at 31 December 2006, the Statement of Total Return for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 14 to 27.

Manager's Responsibility for the Financial Statements

The Fund's Manager is responsible for the preparation and fair presentation of these financial statements in accordance with the recommendations of Statement of Recommended Accounting Practice 7 "Reporting Framework for Unit Trusts" issued by the Institute of Certified Public Accountants of Singapore. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Singapore Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of

Auditors' Report to the Unitholders of APS Funds - APS Alpha Fund
(Constituted under a Trust Deed in the Republic of Singapore)

accounting policies used and the reasonableness of accounting estimates made by the Fund's Manager, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as at 31 December 2006 and the total return for the year then ended in accordance with the recommendations of Statement of Recommended Accounting Practice 7 "Reporting Framework for Unit Trusts" issued by the Institute of Certified Public Accountants of Singapore.

KPMG

Certified Public Accountants

Singapore

30th March 2007

Statement of Total Return

Year ended 31st December 2006

| | Note | 2006 \$ | 2005 \$ |
|--|------|-------------------------|-------------------------|
| Income | | | |
| Dividends | | 995,524 | 2,437,412 |
| Interest | | 37,066 | 36,691 |
| Other Income | | 111 | - |
| | | <u>1,032,701</u> | <u>2,474,103</u> |
| Less: | | | |
| Expenses | | | |
| Performance fees | | 762,939 | 266,604 |
| Goods and Service Tax (“GST”) expense | | 31,256 | 13,331 |
| Realisation charge | | - | 2,597 |
| Others | | 1,374 | - |
| | | <u>795,569</u> | <u>282,532</u> |
| Net income | | 237,132 | 2,191,571 |
| Net gains on value of investments | | | |
| Net realised gains on investments sold | | 1,374,754 | 4,184,679 |
| Net change in fair value on of investments | | 623,901 | (1,476,028) |
| Net foreign exchange loss | | (333,674) | (332,563) |
| | | <u>1,664,981</u> | <u>2,376,088</u> |
| Total return for the year before income tax | | 1,902,113 | 4,567,659 |
| Less: Taxation | 3 | (153,755) | (326,521) |
| Total return for the year | | <u><u>1,748,358</u></u> | <u><u>4,241,138</u></u> |

The accompanying notes form an integral part of these financial statements.

Balance Sheet

As at 31st December 2006

| | Note | 2006 \$ | 2005 \$ |
|--|------|-------------------|-------------------|
| Assets | | | |
| Portfolio of investments | | 34,567,056 | 58,121,280 |
| Receivables | 4 | 16,036 | 158,798 |
| Cash and bank balances | | 1,402,897 | 2,847,543 |
| Total assets | | <u>35,985,989</u> | <u>61,127,621</u> |
| Liabilities | | | |
| Payables | 5 | 1,014,683 | 1,340,831 |
| Due to brokers | | - | 147,943 |
| Net assets attributable to unitholders | 6 | 34,971,306 | 59,638,847 |
| Total liabilities | | <u>35,985,989</u> | <u>61,127,621</u> |

The accompanying notes form an integral part of these financial statements.

Portfolio Statement

As at 31st December 2006

| By Geography* (Primary) Quoted Equities | Holdings at | Fair value at | Percentage of total net assets attributable to unitholders at |
|--|-------------|------------------|--|
| | 31/12/2006 | 31/12/2006 | |
| | | \$ | % |
| China (including Hong Kong SAR) | | | |
| Chaoda Modern Agriculture (Holdings) Ltd | 760,000 | 744,396 | 2.13 |
| China Communications Construction Co. Ltd | 171,000 | 258,479 | 0.74 |
| China Telecom Corporation Ltd. | 880,000 | 738,799 | 2.11 |
| Foxconn International Holdings Ltd | 67,000 | 334,064 | 0.96 |
| IDT International Ltd | 981,200 | 88,951 | 0.26 |
| Jiangsu Expressway Co. Ltd | 414,000 | 398,973 | 1.14 |
| Kingboard Chemicals Holdings Ltd | 111,500 | 665,812 | 1.90 |
| Shenzhen Chiwan Wharf Holdings Ltd | 163,190 | 497,207 | 1.42 |
| Texwinca Holdings Ltd | 734,000 | 771,005 | 2.20 |
| Xinyi Glass Holdings Ltd | 1,094,000 | 722,264 | 2.07 |
| Total China (including Hong Kong SAR) | | 5,219,950 | 14.93 |
| Malaysia | | | |
| British American Tobacco Bhd | 20,200 | 382,274 | 1.11 |
| IJM Corporation Bhd | 233,600 | 746,956 | 2.14 |
| Kulim Malaysia Bhd | 207,300 | 464,452 | 1.33 |
| Total Malaysia | | 1,593,682 | 4.58 |
| Singapore | | | |
| Del Monte Pacific Ltd | 1,513,000 | 650,590 | 1.86 |
| HI-P International Ltd | 649,000 | 564,630 | 1.61 |
| Hong Leong Finance Ltd | 57,000 | 217,740 | 0.62 |
| IDT Holdings (Singapore) Ltd | 571,000 | 391,135 | 1.12 |
| Kingboard Copper Foil Holdings Ltd | 1,282,000 | 532,030 | 1.52 |
| Memtech International Ltd | 3,852,000 | 885,960 | 2.53 |
| Sarin Technologies Ltd | 723,000 | 404,880 | 1.16 |
| Seksun Corporation Ltd | 1,748,000 | 707,940 | 2.02 |
| Tan Chong International Ltd | 573,000 | 199,877 | 0.57 |
| Unisteel Technology Ltd | 516,000 | 1,315,800 | 3.76 |
| Want Want Holdings Ltd | 195,000 | 487,089 | 1.39 |
| Total Singapore | | 6,357,671 | 18.16 |

The accompanying notes form an integral part of these financial statements.

Portfolio Statement

As at 31st December 2006

| By Geography* (Primary) Quoted Equities | Holdings at | Fair value at | Percentage of total net assets attributable to unitholders at |
|--|-------------|-------------------|--|
| | 31/12/2006 | 31/12/2006 | |
| | | \$ | % |
| South Korea | | | |
| Daeduck GDS Co Ltd | 12,738 | 189,279 | 0.54 |
| Hana Financial Group Inc | 5,253 | 414,512 | 1.19 |
| Handsome Co Ltd | 7,720 | 228,920 | 0.66 |
| Hankuk Electric Glass Co Ltd | 19,280 | 692,402 | 1.98 |
| Hynix Semiconductor Inc | 3,530 | 211,966 | 0.61 |
| Hyundai Mobis | 2,460 | 344,468 | 0.99 |
| KH Vatec Co Ltd | 13,154 | 255,702 | 0.73 |
| Kia Motors Corporation | 14,000 | 309,049 | 0.88 |
| Kookmin Bank | 3,000 | 364,731 | 1.04 |
| Korea Electric Terminal Co Ltd | 13,570 | 399,037 | 1.14 |
| Lotte Shopping Co Ltd | 1,257 | 759,969 | 2.17 |
| Phoenix PDE Co Ltd | 77,639 | 484,106 | 1.38 |
| Samsung Electronics Co Ltd | 450 | 454,431 | 1.30 |
| SNU Precision Co Ltd | 16,107 | 383,422 | 1.10 |
| Total South Korea | | <u>5,491,994</u> | <u>15.71</u> |
| Taiwan | | | |
| Catcher Technology Co Ltd | 28,675 | 429,644 | 1.23 |
| CMC Magnetics Corporation | 1,261,000 | 676,264 | 1.93 |
| Depo Auto Parts Industrial Co Ltd | 165,921 | 725,126 | 2.07 |
| Foxconn Technology Co Ltd | 136,375 | 2,502,048 | 7.15 |
| Global Union Industrial Corporation | 526,696 | 983,664 | 2.81 |
| Grand Hall Enterprise Co Ltd | 44,000 | 70,998 | 0.20 |
| Hon Hai Precision Industry Co Ltd | 276,800 | 3,027,508 | 8.66 |
| Meiloon Industrial Co. Ltd | 2,664,436 | 3,070,914 | 8.78 |
| Mitac International Corporation | 213,638 | 395,978 | 1.13 |
| Pihsiang Machinery Manufacturing Co Ltd | 99,831 | 271,919 | 0.78 |
| ProMOS Technologies Inc | 1,046,000 | 698,741 | 2.00 |
| Ritek Corporation | 1,143,000 | 512,969 | 1.47 |
| Wistron Neweb Corporation | 160,203 | 628,540 | 1.80 |
| Total Taiwan | | <u>13,994,313</u> | <u>40.01</u> |

The accompanying notes form an integral part of these financial statements.

Portfolio Statement

As at 31st December 2006

| By Geography* (Primary) Quoted Equities | Holdings at 31/12/2006 | Fair value at 31/12/2006 \$ | Percentage of total net assets attributable to unitholders at 31/12/2006 % |
|---|-----------------------------------|--|---|
| Thailand | | | |
| Bangkok Bank Public Company Limited - NVDR | 163,400 | 756,585 | 2.16 |
| Hana Microelectronics Public Company Limited - Foreign | 128,000 | 150,887 | 0.43 |
| Siam Commercial Bank Public Company Limited - NVDR | 67,000 | 165,075 | 0.47 |
| Singer Thailand Public Co. - NVDR | 2,878,400 | 259,219 | 0.74 |
| Total Thailand | | <u>1,331,766</u> | <u>3.80</u> |
| By Geography* (Primary) Quoted Warrants | | | |
| Kulim Malaysia Bhd - 30.6.2009 Warrant | 491,800 | 577,680 | 1.65 |
| Total Warrants | | <u>577,680</u> | <u>1.65</u> |
| Portfolio of investments | | 34,567,056 | 98.84 |
| Net other assets | | 404,250 | 1.16 |
| Net assets attributable to unitholders | | <u>34,971,306</u> | <u>100.00</u> |

The accompanying notes form an integral part of these financial statements.

Portfolio Statement

As at 31st December 2006

| By Geography* (Summary) Quoted equities and warrants | Percentage of total net assets attributable to unitholders at 31/12/2006 % | Percentage of total net assets attributable to unitholders at 31/12/2005 % |
|---|---|---|
| Hong Kong | 14.93 | 9.72 |
| Malaysia | 6.23 | 2.94 |
| Singapore | 18.16 | 19.63 |
| South Korea | 15.71 | 37.71 |
| Taiwan | 40.01 | 25.96 |
| Thailand | 3.80 | 1.50 |
| Portfolio of investments | 98.84 | 97.46 |
| Other net assets | 1.16 | 2.54 |
| Net assets attributable to unitholders | 100.00 | 100.00 |

* Geographical classification is based on the country in which the funds/companies are listed.

| By Industry (Secondary) | Fair value at 31/12/2006 \$ | Percentage of total net assets attributable to unitholders at 31/12/2006 % | Percentage of total net assets attributable to unitholders at 31/12/2005 % |
|---|--|---|---|
| Consumer discretionary | 7,291,541 | 20.85 | 24.09 |
| Consumer staples | 3,306,481 | 9.45 | 13.03 |
| Financials | 1,918,643 | 5.49 | 7.97 |
| Health Care | 271,919 | 0.78 | - |
| Industrials | 6,106,945 | 17.46 | 19.31 |
| Information technology | 14,400,698 | 41.18 | 28.32 |
| Materials | 532,030 | 1.52 | 2.86 |
| Telecom Services | 738,799 | 2.11 | 1.88 |
| Portfolio of investments | 34,567,056 | 98.84 | 97.46 |
| Other net assets | 404,250 | 1.16 | 2.54 |
| Net assets attributable to unitholders | 34,971,306 | 100.00 | 100.00 |

The accompanying notes form an integral part of these financial statements.

Notes to the Financial Statements

Year ended 31st December 2006

1 General

APS Funds (the “Fund”) is an open-ended umbrella fund constituted pursuant to the Deed of Trust dated 14 May 2003, as amended by Amending and Restating Deeds dated 18 July 2003, 29 June 2004 and 2 August 2004 between APS Asset Management Pte Ltd (the “Manager”) and Dexia Trust Services Singapore Limited (the “Trustee”). The Deed of Trust and Amending and Restating Deeds are governed by the laws of the Republic of Singapore.

Only units in APS Alpha Fund (a sub-fund of APS) are currently being offered.

The principal objective of Fund is to achieve capital appreciation in the medium to long term through investment in listed equities on the recognised stock exchanges of Far East (excluding Japan).

The Fund is included under the Central Provident Fund Investment Scheme.

2 Summary of Significant Accounting Policies

2.1 Basis of preparation

The financial statements, expressed in Singapore Dollars, are prepared on the historical cost basis, as modified by the revaluation of quoted investments, and in accordance with Recommended Accounting Practice 7 “Reporting Framework for Unit Trusts” issued by the Institute of Certified Public Accountants of Singapore.

For the purposes of preparation of these financial statements, the basis used for calculating the ratio of expenses and portfolio turnover rate are in accordance with the guidelines issued by the Investment Management Association of Singapore and the Code on Collective Investment Schemes under the Securities and Futures Act (Cap. 289) respectively.

2.2 Basis of valuation of investments

Quoted investments are stated at fair value based on the bid prices of the last day of the financial year. The difference between the fair value of the portfolio of investments and the original cost (which includes brokerage and other transaction costs) is taken directly to the Statement of Total

Notes to the Financial Statements

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Return. Realised gains and losses on disposal of investments are computed on the basis of the difference between weighted average cost and selling price and are taken directly to the Statement of Total Return on contract date.

Financial derivatives, included in Portfolio of investments, are entered into for effective portfolio management purposes and are remeasured to fair value at the balance sheet date. The net resultant profit or loss is included in the Statement of Total Return on contract date.

2.3 Recognition of income

Dividend income is recognised when declared and is stated gross of tax credits. Interest income is recognised on the accrual basis.

2.4 Foreign currency translation

All monetary assets and liabilities in currencies other than Singapore dollars are translated at exchange rates ruling at the end of the accounting year and transactions in currencies other than Singapore dollars during the year are translated at rates of exchange ruling on transaction dates. Non-monetary assets and liabilities in currencies other than Singapore dollars that are measured at fair value are retranslated at the exchange rate at the date on which the fair value was determined. Translation differences are dealt with through the Statement of Total Return.

2.5 Units

All units issued by the Fund provide the investors with the right to redemption for cash the value proportionate to the investor's share in the Fund's net assets at redemption date. Such instruments give rise to a financial liability for the present value of the redemption amount.

3 Taxation

The taxation charge relates to tax deducted at source and withholding tax suffered on dividend income and interest income.

The Fund is a designated unit trust under the Singapore Income Tax Act (Chapter 134). As such, the following income will not be taxed at the Fund level:

Notes to the Financial Statements

Year ended 31st December 2006

- gains or profits derived from Singapore or elsewhere from the disposal of securities;
- interest (other than interest for which Singapore tax has been withheld); and
- dividend derived from outside Singapore and received in Singapore.

4 Receivables

| | 2006 | 2005 |
|--|--------|---------|
| | \$ | \$ |
| Accrued dividends receivable | 13,462 | 142,914 |
| Amount due from the Manager | 2,574 | 1,084 |
| Amounts receivable for creation of units | - | 14,800 |
| | 16,036 | 158,798 |
| | 16,036 | 158,798 |

5 Payables

| | 2006 | 2005 |
|---|-----------|-----------|
| | \$ | \$ |
| Payable to unit holders for cancellation of units | 218,072 | 1,057,014 |
| Accrued performance fees payable to the Manager | 763,994 | 273,798 |
| Other accrued expenses | 32,617 | 10,019 |
| | 1,014,683 | 1,340,831 |
| | 1,014,683 | 1,340,831 |

6 Net Assets Attributable to Unitholders

| | Note | 31/12/2006 | 31/12/2005 |
|--|------|--------------|--------------|
| | | \$ | \$ |
| At the beginning of the financial year | | | |
| - as previously reported | | 59,638,847 | 83,960,848 |
| - effect of adopting revised Statement of Recommended Accounting Practice 7 | | - | (586,943) |
| - as restated | | 59,638,847 | 83,373,905 |
| Operations | | | |
| Changes in net assets attributable to unitholders resulting from operations | | 1,748,358 | 4,241,138 |
| Unitholders' contributions/(withdrawals) | | | |
| Creation of units | | 1,744,532 | 6,957,484 |
| Cancellation of units | | (28,160,431) | (34,933,680) |
| Change in net assets attributable to unitholders resulting from net creation and cancellation of units | | (26,415,899) | (27,976,196) |
| Total decrease in net assets attributable to unitholders | | (24,667,541) | (23,735,058) |
| At the end of the financial year | | 34,971,306 | 59,638,847 |
| Units in issue | 7 | 29,497,533 | 52,884,717 |
| Net assets attributable to unitholders per unit | | 1.19 | 1.13 |

Notes to the Financial Statements

Year ended 31st December 2006

Quoted investments have been valued at the current bid price.

For the purpose of calculation of the net asset attributable to unitholders per unit for the issuance and redemption of units, quoted investments are stated at the last available transacted price, in accordance with the Code on Collective Investment Scheme.

In the previous financial year, with the adoption of the revised RAP 7, quoted investments have been valued at the current bid price. Previously, such investments were valued at the mid price. The change in accounting policy resulted in reduction of \$586,943 to the net assets attributable to unitholders as at 1 January 2005.

7 Units in Issue

| | 2006 | 2005 |
|--------------------------|-------------------|-------------------|
| | \$ | \$ |
| At beginning of the year | 52,884,717 | 78,232,717 |
| Units created | 1,539,938 | 6,720,200 |
| Units cancelled | (24,927,122) | (32,068,200) |
| At end of the year | <u>29,497,533</u> | <u>52,884,717</u> |

8 Financial Instruments

Risk Management Objectives and Policies

The Fund is a Far East market (excluding Japan) equity investment fund and as such is exposed to market price risk, interest rate risk, credit risk, liquidity risk, currency risk, economic and political risk arising from the financial instruments it holds. The risk management policies employed by the Fund to manage these risks are discussed below:

Market risk

Market price risk is the risk of loss to the value of a financial instrument resulting from movements in market risk factors such as security prices, interest rates and foreign exchange rates.

The Manager manages its market price risk through constant monitoring to ensure effective portfolio diversification via countries, industries and stocks

Notes to the Financial Statements

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to limit its exposure. The Manager also takes active steps to prevent unintended large underweight or overweight positions. The Manager also performs regular portfolio reviews are carried out to revalidate the weightings of each stock, sector and country.

Liquidity risk

Liquidity risk arises from not being able to fund redemptions or liquidate positions in a timely manner at a reasonable price. Liquidity risk exist when a particular investment is difficult to purchase or sell. These circumstances could prevent the Fund from promptly liquidating unfavourable positions and therefore resulting in losses to the Fund and corresponding decreases in the net assets value per unit. The Manager manages liquidity risk by investing primarily in marketable securities.

Foreign currency risk

The reporting currency of the Fund is Singapore Dollars. Significant portion of the assets of the Fund is denominated in several foreign currencies which include Korean Won, Taiwan Dollars and Hong Kong Dollars. Consequently, the Fund is exposed to the effects of changes in these foreign currencies' exchange rates relative to Singapore Dollars. The Fund is not actively hedging the foreign currency exposure. The Manager considers it unnecessary to pursue active management of foreign currency risks as the objective of the Fund is seek long to medium term capital appreciation.

Notes to the Financial Statements

Year ended 31st December 2006

The table below summarises the Fund's exposure to currency risks based on Singapore dollar equivalents.

| | KRW S\$ | TWD S\$ | SGD S\$ | HKD S\$ | OTHERS S\$ | Total S\$ |
|--|-------------------|-------------------|-------------------|------------------|------------------|-------------------|
| As at 31th Dec 2006 | | | | | | |
| Assets | | | | | | |
| Investments | 5,491,994 | 13,994,313 | 5,670,705 | 5,419,826 | 3,990,218 | 34,567,056 |
| Cash and bank balances | 212,621 | 96,373 | 409,633 | 625,769 | 58,501 | 1,402,897 |
| Other assets | 10,216 | - | 2,555 | 19 | 3,246 | 16,036 |
| Total assets | 5,714,831 | 14,090,686 | 6,082,893 | 6,045,614 | 4,051,965 | 35,985,989 |
| Liabilities | | | | | | |
| Payables | - | - | 981,404 | - | 33,279 | 1,014,683 |
| Due to brokers | - | - | - | - | - | - |
| Net assets attributable to unitholders | - | - | 34,971,306 | - | - | 34,971,306 |
| Total liabilities | - | - | 35,952,710 | - | 33,279 | 35,985,989 |
| As at 31th Dec 2005 | | | | | | |
| Assets | | | | | | |
| Investments | 22,489,949 | 15,481,200 | 9,804,892 | 7,699,067 | 2,646,172 | 58,121,280 |
| Cash and bank balances | - | 1,597,525 | 889,117 | - | 360,901 | 2,847,543 |
| Other assets | 102,256 | - | 15,860 | 10,319 | 30,363 | 158,798 |
| Total assets | 22,592,205 | 17,078,725 | 10,709,869 | 7,709,386 | 3,037,436 | 61,127,621 |
| Liabilities | | | | | | |
| Payables | - | - | 881,544 | - | 459,287 | 1,340,831 |
| Due to brokers | - | 147,943 | - | - | - | 147,943 |
| Net assets attributable to unitholders | - | - | 59,638,847 | - | - | 59,638,847 |
| Total liabilities | - | 147,943 | 60,520,391 | - | 459,287 | 61,127,621 |

Interest rate risk

The Fund's exposure to market risk for changes in interest rates relates primarily to the Fund's cash and bank balances. The Fund does not use derivative financial instruments to hedge its interest rate risk.

Counterparty risk

Counterparty risk is the risk that the contracting parties to the Fund will not be able to fulfill their obligations due to deterioration of the counterparty's financial situation or some other failure by the counterparty. It consists of both pre-settlement and settlement risks.

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Year ended 31st December 2006

All new counterparties are subject to stringent review which include a due diligence process with defined criteria, proper approval and ongoing monitoring. The Fund limits its dealing to listed equities with reputable brokers who are regulated thus limited its counterparty risk exposure.

Estimation of fair value

Investments in equity

Quoted investments are stated at fair value based on the bid prices of the last day of the financial year.

Other financial assets and liabilities

The notional amounts of financial assets and liabilities with a maturity of less than one year (including receivables, cash and bank balances and payables) are assumed to approximate their fair values because of the short period to maturity.

Fair value

At the balance sheet dates, the carrying value of the financial assets and liabilities approximate their fair value.

9 Financial Ratios

| | 31/12/2006 | 31/12/2005 |
|--|-------------------|-------------------|
| | % | % |
| Expense ratio – (excluding performance fee) for the 12 months ended (note 1) | 0.08 | - |
| Expense ratio – (including performance fee) for the 12 months ended (note 1) | 1.83 | 0.41 |
| Turnover ratio for the 12 months ended (note 2) | 60.97 | 54.14 |

Note 1 - The expenses used in calculating the “Ratio of expenses to average net assets” include only performance fees and GST expenses, as no management fee is payable and all other expenses are borne by the Manager. The above expense ratios are not reflective of the actual performance fees paid by any individual investor during the reporting period. The actual performance fees paid by any individual investor would depend on the entry and exit dates of the investment.

Notes to the Financial Statements

Year ended 31st December 2006

Note 2 - The turnover ratio is calculated based on the lesser of purchase or sales expressed as a percentage over the daily average net asset value.

10 Related Party Transactions

In the normal course of the business of the Fund, a performance fee is payable to the Manager, as stated in the Statement of Total Return, in accordance with terms of the Trust Deed dated 14 May 2003, and Amending and Restating Deeds dated 18 July 2003, 29 June 2004 and 2 August 2004.

11 Soft Dollar Arrangements

In its management of the Fund, the Manager receives soft dollar commissions from, or enters into soft dollar arrangements in respect of the Fund. The soft dollars received would be restricted to the following kinds of services:

- (a) Research and advisory services;
- (b) Economic and political analysts;
- (c) Portfolio analyses, including valuation and performance measurement;
- (d) Market analyses;
- (e) Data and quotation services;
- (f) Computer hardware and software that are incidental to the provision of above services;
- (g) Custodial services in relation to the investments managed for clients;
and
- (h) Investment related publications.



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