

# FINANCIAL STATEMENTS

Year ended 31<sup>st</sup> December 2007

## APS Alpha Fund



APS Asset Management Pte Ltd

## **APS FUNDS - APS ALPHA FUND**

- Manager** : **APS Asset Management Pte Ltd**  
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**Singapore 079909**
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**20 Cecil Street**  
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**Singapore 049705**
- Auditors** : **KPMG**  
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## **Investment Review for Year Ended 31<sup>st</sup> December 2007**

### **Economic and Market Background**

Looking at the components of the market benchmark, stocks classified under China continued to show strong returns of 65%; Indonesia returned 55%, Thailand 47%, Malaysia 44% and Hong Kong 41% in 2007. In the first half of the year, stocks remained extremely buoyant with many companies announcing record earnings. The second half of the year was very much tainted by increasing fears of the US going into recession. Many major banks in the US were forced to take writedowns to the extent of billions as the housing market there slowly unravelled after decades of excesses driven by loose credit. Meanwhile in China, inflation manifested in higher food and property prices have elicited a very strong policy response from the Chinese government as they increased lending rates and imposed measures to cut off speculators from the markets. Whilst many analysts and investors still believe that the Asian economies might be largely immune to a US slowdown owing to strong growth in China and India, some are slowly turning cautious in their outlook. However, even in the case of a US or global recession, the consensus is that Asian economies will not be as badly hit as they were during the Asian crisis of the late 1990s.

### **Fund Performance Analysis**

Against the euphoria for anything China related this year, the portfolio was penalized by being overweight in Taiwan and underweight in China/Hong Kong. This is despite the fact that we think that over the longer term, there are a lot more well managed companies selling at cheaper valuations in some of the other countries that we are in rather than in the China/Hong Kong space where we think that investors have been chasing after stocks with growth momentum without a carefully consideration for the price they are paying. Many of these stocks are priced for perfection and are vulnerable to any disappointment in earnings. As we all know, bull markets do not last forever – a fact easily forgotten when the stocks have gone up for many years. We remain sceptical that the bull market will be sustained for another few more years in the face of a global slowdown and more specifically, a slowdown in the earnings of Asian companies in the short term. We prefer to hold stocks that have been ignored by investors in the past few years because they are less sexy but nonetheless have decent earnings growth which we think is sustainable and are trading at much cheaper valuations. In the short term however, we have paid the price for not joining in the party but we think that this is the right thing to do for investors with a longer term investment horizon.

## Investment Review for Year Ended 31<sup>st</sup> December 2007

The portfolio was adversely affected by a sudden and sharp sell down in Taiwan technology/manufacturing stocks in the month of December. The sell off was initiated by the introduction of a new labour contract law in China which is likely to result in higher labour costs for many manufacturing companies in China. At the same time, worries about the state of the US consumer market also came to head in December when many companies reported very weak US Christmas sales. This sparked off fears that many of these Taiwanese companies selling their products in the US will be seeing sharply lower sales in the next couple of quarters.

We believe, however, that in the long run, many of the stronger manufacturing companies within our portfolio will benefit from an increase in outsourcing from their US or European clients. This has been our experience in the past with these companies. As the going gets tough, many of the US and European companies have no choice but to move even more of their production to countries with a lower manufacturing cost. Yes, it is a fact that wages in China have risen over the past few years in the coastal region provinces such as Shanghai and Guangdong, but China as a whole remains one of the lowest cost countries in the world to manufacture all kinds of products. We have seen many of these companies such as Hon Hai Precision moving further to inland provinces where labour costs remain low and labour supply remains abundant. Increasingly, we are also seeing companies setting up new operations in Vietnam where wages are about half of those in Southern China.

On the other hand, the portfolio benefited from a turnaround in some stocks that have been very ignored by the market but are trading at very cheap valuations such as Varitronix, a maker of STN LCD panels traded at about 6x 2008PER and Texwinca, a fully integrated textile/garment manufacturer (the parent company of the apparel retail brand Baleno). The strong performance of some of these stocks towards the end of 2007 suggests to us that investors are slowly switching to stocks that offer good value and have limited downside as they become more discerning in the face of an imminent bear market. This will certainly benefit many more stocks in our portfolio in the coming few quarters.

Another sign that many of the stocks within the portfolio are trading at compelling value is the fact that many of our companies have been approached for privatization, or have been privatised or the ownership of the company has changed. An example would be Hankuk Electric Glass (one of the top performers of the fund), a maker of cathode ray glass tubes that was traded at below net cash per share. Its major shareholder Asahi Glass has attempted a General Offer to take over the rest of the shares they do not own at a price equivalent to the net cash per share. Naturally, the low-ball bid was rejected by

## **Investment Review for Year Ended 31<sup>st</sup> December 2007**

minority shareholders. Another example is Want Want, a company selling sweets and rice crackers in China, which was taken private earlier in the year 2007.

Other stocks that have done well include Xinyi Glass which has benefited from the strong demand for construction glass, auto glass and float glass in China. Chaoda Modern Agriculture, a vegetable grower in China which was traded at 6x PER07, has also gone up about 80% in the year on good growth prospects of about 35% and cheap valuations. In Taiwan, our two new additions in 4Q07, Qisda and Eastern Media International have gone up 36% and 19% respectively because they were trading far below their asset values.

Despite the disappointing performance this year, we would like to assure investors that having managed Asian equities for many years, we are making every effort to own companies that we think will provide reasonable returns over the long term. These companies may not be the market darlings for now but we believe that if we buy profitable and well managed companies at a very reasonable price, we should be able to provide our investors with good returns over the longer period, as we have demonstrated in the past.

### **Portfolio Activities**

#### **Korea Market**

After doing a review on Daeduck GDS and SNU Precision, we have also exited these positions as we believe that the operating environment for Korean handset component suppliers will remain difficult for the foreseeable future. We added Hanil Cement to our portfolio. Korean cement has gone through a difficult stretch over the last two years due to sluggish demand in the construction sector as a result of property measures by the Korean government. The demand-supply imbalance in the cement sector, however, is about to improve as the government rolls out its plan to build 10 satellite cities (579,000 homes) over the next three years, with an increased number of public-private PF projects. We particularly like Hanil Cement, because it boasts one of the best margins in the industry and has a strong balance sheet, while still selling at a discount to book value despite having ca. 65% of its market value sitting in cash and liquid securities.

We have sold out of our positions in Korea Electric Terminal, Kia Motors and Hyundai Mobis as the Korean auto industry is likely to go through a difficult period as the Korean won appreciates and as operational problems dog the execution of a restructuring plan in the coming quarters. In addition, we have

## Investment Review for Year Ended 31<sup>st</sup> December 2007

sold out of Kookmin Bank as we see the domestic economy slowing down and affecting the profitability of the bank.

### Taiwan Market

In Taiwan, we sold out Mitac, a maker of GPS devices as we believe that the company are likely to be hit most in the event of a slowing US economy in the coming year. We sold out of Globe Union, a faucet maker selling its products in the US and Europe. We think that the business will also be negatively impacted as the US/European housing market slows down. We took profits in CMC Magnetics and Ritek after the stock price appreciated on news of the launch of new businesses like the solar panel business and the touch panel business. Meanwhile, our research revealed that both companies are likely to disappoint in their core DVD-R business and hence we decided to exit the positions. We also sold Pihsiang Machinery, an electric mobility aid maker, after the management disappointed investors time and again on their execution in introducing new products.

Over the year, especially in 2H07, we added a few stocks that were traded at huge discounts to their asset values. These include Eastern Media International, which was traded at 0.7x 2006 book value and 5x PER07; Qisda Corporation that was trading at about half of its RNAV and two construction companies Huaku Construction and Huang Hsiang Construction that were trading at PER08 6.2x (Huaku) and PER08 4.0x (Huang Hsiang) with cash dividends of 7.6% and 10.6% respectively for 2007. We also added Quanta Computer, the world's largest notebook computer maker with a global market share of 30%. The stock has underperformed for many years after the management disappointed investors in its execution. We believe however that it will continue to enjoy strong growth, helped by industry growth rates of 25% and the launch of new products such as the ultra low cost notebooks.

We added King Slide Works to our Taiwan portfolio. Apart from the manufacturing and selling of accessories and kits related to rack mounted servers, King Slide produces slides and hinges used in commercial furniture. The company is expected to increase capacity by more than 2.5 times in the next two years, suggesting strong growth coming from existing and new clients and products. We believe that the producer of server rail kits and slides will enjoy more than 50% EPS growth next year. Currently, the stock is cheap at FY08 P/E of 10.8x and ROE of 51%.

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Taiwan Chi Cheng is a specialist aluminium component producer supplying mostly to handset companies such as Motorola and Nokia. The barriers to entry into the industry are high and the company is likely to see very strong growth in the next 2-3 years (30-50%) stemming from the strong handset outsourcing trend in Asia and the trend towards an increased use of light metal parts in handsets. ROEs of the company are expected to be above 30% in the next 2-3 years. The stock is trading at an attractive valuation of about 13x PER07.

### Hong Kong Market

In Hong Kong, we got out of Texwinca taking advantage of a surge in share price on optimism of a strong turnaround in results.

We added several new positions in Hong Kong over the year. These include Shenzhen International Holdings, a HK-listed red chip owned by the Shenzhen municipal government, with the Cheung Kong Group as strategic investor. Its core assets are logistical parks in Shenzhen and toll roads. We believe the company is traded at half of the value of its revalued assets. After exiting Chaoda Modern Agriculture earlier in the year on corporate governance concerns, we re-entered the stock when the share price plunged 40% after the Chairman placed out shares and its bonds were put on watch by credit rating agencies. We think that given the rising food prices experience in China, the company could still benefit. The company is presently grossly mispriced by the market, trading at only a FY07/08 P/E of 5.8x, and a P/B of 1.2x.

We added BYD Co. and BYD Electronic for the portfolio in 4Q07. BYD Co. is the second largest rechargeable battery manufacturer in the world with products like Lithium-ion batteries, Nickel-Cadmium and Nickel-Metal hydride batteries used for mobile phones, power tools, cordless phones, etc. Its electronics division which is a major handset component supplier to Nokia was subsequently separately listed as BYD Electronic. We believe that both companies will experience very strong growth in the coming years and we believe that the market has not fully priced in the strong growth.

We added Singamas which is the world's 2<sup>nd</sup> largest manufacturer of (shipping) containers. The stock was beaten down after posting a 66% decline in earnings in 1H06 on the back of delays in capacity start-ups and comparison against an unseasonably strong 1H05. However, the company should see a strong turnaround in earnings in 2007 as there are no more one-off start up expenses and the new plants will start to contribute. Demand remains strong due to record

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container fleet additions, rising containerisation (coupled with more intermodalism) and trade growth. Supply of corten steel has also stabilised and product ASPs (and margins) should therefore remain firm. Consensus earnings for 2007 seem low at USD 43mn; we believe a more realistic estimate is USD 70mn (PER07 5.4x). Apart from strong earnings growth, Singamas should gradually re-rate as it improves its product mix to specialised containers and trailers, which command higher margins. The company should be able to achieve its target of 30% in these new businesses as it is receiving support from customers who do not want the dominant supplier, CIMC, to control too much market share.

We added Geely, a leading private Chinese auto assembler that would benefit from secular growth in auto (sedans) demand in China over the next few years. The company has cost advantages vis-a-vis SOEs and foreign JV competitors due to its ability to produce key components (engines and drive trains) in-house. Geely's move into higher-end cars would lead to improving ASPs (and margins), while an impending asset injection (of the remaining stakes in the 2 profit-generating associates) and strong export growth would likely provide earnings upside surprises over the next couple of years. Valuations are depressed due to its current investment holding company structure and potential equity raising to fund the asset injections. We expect the stock to re-rate once these overhangs have been cleared.

We added Samson Holding, a furniture manufacturer that wholesales a growing portfolio of furniture brands to the US. Samson has been steadily gaining market share as the company's state-of-the-art production facilities in China give it significant cost advantages versus its US peers, while exemption from anti-dumping tariffs and the ability to produce high-end case goods provide it with a leg-up over other Chinese competitors. Given the difficult market conditions in the US, there has also been an acceleration of furniture outsourcing as the industry fights to cut costs. Samson has been rapidly growing its OEM business as a result. However, there is still much room for further market share gains as the industry is fragmented and Samson currently only accounts for 2-3% of the market. Near-term positive catalysts include the potential acquisition of distressed assets/brands; the company can switch production to China to quickly turnaround the earnings of any acquiree. Acquisition risk is mitigated by a strong management team and previous successes in staging such turnarounds. Coupled with initiatives to penetrate the European and China furniture markets, the company is in a strong position to double its revenues over the next few years while maintaining stable margins. At PER07 11-12x, the stock looked attractively priced given its robust business model and strong earnings growth profile over the next few years.

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We added Varitronix, a maker of STN LCD panels. The stock is trading at about 6x PER08 and about half of the market value is in net cash and marketable securities. With its telecom division turning around in 2H FY06 and auto business continuing to grow strongly, the stock was expected to perform well.

### **Philippines Market**

In the Philippines we added Manila Water, a well run utility company that owns concession rights for the East Zone of Metro Manila. Over the last few years, it has been steadily growing its earnings by expanding its water network in the East Zone, and by raising tariffs. Its good operational track record is best exemplified by reduction of non-revenue water from 63% (1997) to 26.5% (2006). The Philippines has a stable regulatory system for determining water tariffs. Every five years, Manila Water submits a proposal to the regulator to revise its tariff rate, which allows the company to earn an appropriate return on investment, motivating it to outperform its KPIs. For its recently submitted 2008 proposal, the company is expecting a 20-30% tariff hike. The water system in the Philippines is still underdeveloped, which represents opportunities for Manila Water to expand its network. Billed volume growth is projected to be between 10-12% over the medium term through expansion in Manila. The company is also sourcing other expansion opportunities from abroad (e.g. Vietnam & Hong Kong) and in other parts of the archipelago. The stock is cheap at a 2008 (Dec) P/E of 11x, 19% ROE and P/B of 2x. Over the medium term, we expect the company to grow its revenue/earnings by 15% p.a.

### **Singapore Market**

In Singapore, we sold Tan Chong International as we believed that sales of Nissan cars in Singapore are likely to disappoint on the lack of new models being launched. We also exited Want Want Holdings on the basis that the stock is currently trading close to the price expected for the pending privatization of the company. We sold Seksun Corp which is in the hard disk component industry. After a strong year, we believe that all the good news is already priced in and with Seagate giving a profit warning, we think that the outlook might be muted for the sector and hence the company. We added food and beverage giant Hsu Fu Chi, which currently commands a 4% market share of China's confectionary industry. The company's business model is robust, and the majority shareholders are managing the company. The company is expected to deliver the kind of growth similar to that of the last couple of years, which is expected to be 20% p.a.

## Investment Review for Year Ended 31<sup>st</sup> December 2007

In addition, we added two Singapore property counters City Development and UOL Group earlier in the year on optimism that there will be a property price appreciation in the long term, driven by growth from various sectors such as the oil and gas sector, financial, bio-medical and tourism sectors.

### Malaysia Market

We took profit on British American Tobacco after the stock had reached our target price. Further upside appears limited at this level.

We bought Malaysian Airlines (MAS) earlier this year on the back of a turnaround story for the company. The company had undertaken a number of cost savings and revenue enhancing initiatives, with the aim of significantly boosting profits. While we are confident the company will eventually succeed, it would likely take another 1 to 2 years to see real results. YTD, the financial performance of the company has been below our expectations. In addition, ASEAN open skies are due to be implemented by beginning of 2009, which means a much more competitive industry going forward. We believe with the explosion of low cost travel over the next few years (and the potential government approval of the bullet train linking Singapore and Malaysia), MAS will find it difficult to compete successfully, so we sold the position subsequently.

We added Tanjong whose key businesses are in gaming and power (IPP), which are both fairly defensive and have a predictable growth. The company is well-run and is still cheap, even though it has done fairly well for us since we first purchased our position in 1Q07. The stock is trading at 11.5x Jan 2009 earnings. Management is actively looking to unlock value from the business by pursuing a separate listing of the power assets in an overseas stock exchange in 2008. We believe this will lead to a re-rating of the stock. Organic growth in power assets will come from winning new IPP concessions in the region.

We added SP Setia, which is one of the leading property developers in Malaysia. The group is well managed, evident from its past execution track record. The company is set to benefit from a strong economy as asset prices continue to rise from the government's pump priming effort. Development of the South Johor Economic Region would also be a positive driver for the company as it has a big undeveloped landbank in this region (1/3 of its landbank). Further upside surprises could come from its growing commercial property segment (higher margins) and its overseas ventures in fast developing countries such as Vietnam.

## **Investment Review for Year Ended 31<sup>st</sup> December 2007**

We added Bumiputra Commerce Bank which should benefit from the 9th Malaysian Plan, given its current positioning and plans to revamp its consumer banking division while leveraging its extensive branch network to sell products. Provisions are also set to decline, with some recoveries expected. Management has done a good job in integrating Southern Bank into the group and we believe that management will continue to surprise the market on the upside. P/B of 2.38x vs its larger peers of 2.8x is attractive, given the likelihood of higher earnings growth.

We added WCT Engineering, a reputable Malaysian construction company and property developer. It has a strong reputation in the Middle East for having completed the Bahrain Formula One project on time and on budget. Its current orderbook of RM6.8bn will underpin revenue and earnings growth for the next three years. The company has a strong track record of winning favourable contracts in the Middle East, including the recent Dubai Racecourse and Abu Dhabi Formula One circuit contracts. We are confident the company will continue to win new projects in both Malaysia and the Middle East. The company is making inroads into Vietnam, having very recently secured their first investment certificate. While the stock has done well over the last two years, valuations are not demanding at 2008 P/E 11.5x, P/B 2.5x and ROE 22%.

### **Thailand Market**

In Thailand, we sold most of our positions in Bangkok Bank, Siam Commercial Bank and Hana Microelectronics in order to fund our other purchases in the rest of the region. With the military government in charge during 2007, we believed that investors would continue to avoid Thailand and looking at the valuations and the growth profile of these stocks, we concluded that they were not very cheap either compared to other opportunities in the region.

### **Outlook & Strategy**

We think that the outlook for Asian equity markets remain challenging in the coming year or so. Our strategy is to hold on to shares of companies that are well managed and are trading at very attractive valuations. In the event of a downturn, we believe that the earnings and therefore the share prices of these companies will be more resilient.

**APS Asset Management Pte Ltd, 31<sup>st</sup> March 2008**

## Report of the Trustee

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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 Manager 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 16 to 28, 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**

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**Dominique H.A.H. Draux**  
Managing Director

**Singapore**  
31<sup>st</sup> March 2008

## Statement by the Manager

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In the opinion of the directors of APS Asset Management Pte Ltd, the accompanying financial statements set out on pages 16 to 28, 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 as at 31 December 2007 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 the directors of  
**APS Asset Management Pte Ltd**

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**Pieter van Putten**  
Director

**Singapore**  
31<sup>st</sup> March 2008

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

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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 2007, 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 16 to 28.

### *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 judgement, 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)

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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 2007 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**

31<sup>st</sup> March 2008

## Statement of Total Return

Year ended 31<sup>st</sup> December 2007

	Note	2007 \$	2006 \$
<b>Income</b>			
Dividends		717,358	995,524
Interest		14,472	37,066
Other income		-	111
		<u>731,830</u>	<u>1,032,701</u>
Less:			
<b>Expenses</b>			
Performance fees		69,768	762,939
Goods and Service Tax ("GST") expense		4,246	31,256
Others		1,221	1,374
		<u>75,235</u>	<u>795,569</u>
<b>Net income</b>		656,595	237,132
<b>Net gains on value of investments</b>			
Net realised gains on investments sold		3,591,654	1,374,754
Net change in fair value of investments		(3,896,781)	623,901
Net foreign exchange loss		(192,488)	(333,674)
		<u>(497,615)</u>	<u>1,664,981</u>
<b>Total return for the year before income tax</b>		158,980	1,902,113
Less: Taxation	3	<u>(104,265)</u>	<u>(153,755)</u>
<b>Total return for the year</b>		<u>54,715</u>	<u>1,748,358</u>

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

## Balance Sheet

As at 31<sup>st</sup> December 2007

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	Note	2007 \$	2006 \$
<b>Assets</b>			
Portfolio of investments		25,883,632	34,567,056
Receivables	4	6,448	16,036
Cash and bank balances		877,930	1,402,897
<b>Total assets</b>		<u>26,768,010</u>	<u>35,985,989</u>
<b>Liabilities</b>			
Payables	5	113,520	1,014,683
Due to brokers		65,616	-
Net assets attributable to unitholders	6	26,588,874	34,971,306
<b>Total liabilities</b>		<u>26,768,010</u>	<u>35,985,989</u>

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

## Portfolio Statement

As at 31<sup>st</sup> December 2007

By Geography* (Primary) Quoted Equities	Holdings at 31/12/2007	Fair value at 31/12/2007 \$	Percentage of total net assets attributable to unitholders at 31/12/2007 %
<b>CHINA (Including Hong Kong SAR)</b>			
IDT International Ltd	4,834,000	454,369	1.71
Shenzhen International Holdings Ltd	475,000	91,921	0.34
Varitronix International Ltd	425,000	446,473	1.68
BYD Electronic Co. Ltd	63,000	175,327	0.66
Foxconn International Holdings Ltd	79,000	254,798	0.96
Geely Automobile Holdings Ltd	1,425,000	231,115	0.87
Samson Holdings Ltd	307,000	92,227	0.35
Xinyi Glass Holding Co. Ltd	74,000	103,379	0.39
Chiwan Wharf Holdings Ltd	122,395	379,195	1.43
BYD Company Ltd	30,500	290,055	1.09
Singamas Container Holdings Ltd	458,000	286,152	1.08
Chaoda Modern Agriculture Holdings Ltd	168,075	218,695	0.82
China Telecom Corporation Ltd	636,000	726,742	2.73
Jiangsu Expressway Co. Ltd	242,000	379,110	1.43
<b>Total China (Including Hong Kong SAR)</b>		4,129,558	15.54
<b>MALAYSIA</b>			
Malaysian Airline System Berhad	317,334	517,733	1.95
S P Setia Berhad	186,000	402,531	1.51
WCT Engineering Berhad	166,700	604,893	2.26
Tanjong PLC	85,100	684,161	2.57
Bumiputra-Commerce Holdings Berhad	75,100	358,996	1.35
IJM Corporation Berhad	108,100	404,000	1.52
YTL Corporation Berhad	88,100	302,454	1.14
YTL Power International Berhad	5,873	6,891	0.03
CB Industrial Products Holdings Berhad	310,000	828,502	3.12
<b>Total Malaysia</b>		4,110,161	15.45
<b>PHILIPPINES</b>			
Manila Water Company, Inc.	524,000	337,827	1.27
<b>Total Philippines</b>		337,827	1.27

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

## Portfolio Statement

As at 31<sup>st</sup> December 2007

By Geography* (Primary) Quoted Equities	Holdings at 31/12/2007	Fair value at 31/12/2007 \$	Percentage of total net assets attributable to unitholders at 31/12/2007 %
<b>SINGAPORE</b>			
IDT Holdings (Singapore) Ltd	528,000	229,680	0.86
Unisteel Technology Ltd	251,500	422,520	1.59
Hsu Fu Chi International Ltd	170,000	183,600	0.69
Kingboard Copper Foil Holdings Ltd	522,000	187,920	0.71
HI-P International Ltd	1,303,000	625,440	2.35
Memtech International Ltd	3,852,000	789,660	2.97
Del Monte Pacific Ltd	969,000	474,810	1.79
City Developments Ltd	18,000	255,600	0.96
UOL Group Ltd	46,000	207,920	0.78
<b>Total Singapore</b>		3,377,150	12.70
<b>SOUTH KOREA</b>			
Hanil Cement Co. Ltd	3,208	534,390	2.01
Samsung Electronics Co. Ltd	231	197,188	0.74
Hankuk Electric Glass Co. Ltd	25,210	1,317,905	4.96
Handsome Corporation	11,690	221,654	0.83
Lotte Shopping Ltd	1,257	797,039	3.00
KH Vatec Co. Ltd	48,862	1,001,490	3.77
Hana Financial Group Inc.	10,003	774,025	2.91
<b>Total South Korea</b>		4,843,691	18.22
<b>TAIWAN</b>			
King Slide Works Co. Ltd	13,000	104,864	0.39
Hon Hai Precision Industry Co. Ltd	211,960	1,897,649	7.14
Qisda Corporation	284,400	451,256	1.70
Foxconn Technology Co. Ltd	111,981	1,310,264	4.93
Quanta Computer Inc.	119,000	242,877	0.91
Catcher Technology Co. Ltd	162,777	1,363,532	5.13
Meiloon Co. Ltd	1,168,164	1,247,761	4.69
Huang Hsiang Construction Corporation	77,662	159,196	0.60
Huaku Construction Co. Ltd	130,000	354,347	1.33
Eastern Media International Corporation	366,000	180,870	0.68
Taiwan Chi Cheng Enterprise Co. Ltd	320,100	734,896	2.76
Wistron Newew Corporation	67,794	173,672	0.65
Depo Auto Parts Industry Co. Ltd	163,921	820,963	3.09
<b>Total Taiwan</b>		9,042,147	34.00

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

## Portfolio Statement

As at 31<sup>st</sup> December 2007

By Geography* (Primary) Quoted Equities	Holdings at	Fair value at	Percentage of
	31/12/2007	31/12/2007 \$	total net assets attributable to unitholders at 31/12/2007 %
<b>THAILAND</b>			
Singer Thailand Public Co. Ltd	513,200	36,362	0.14
<b>Total Thailand</b>		<u>36,362</u>	<u>0.14</u>
<b>Total Quoted Equities</b>		25,876,896	97.32
<b>Quoted Warrants</b>			
S P Setia Berhad	31,000	6,736	0.03
<b>Total Malaysia</b>		<u>6,736</u>	<u>0.03</u>
<b>Total Quoted Warrants</b>		6,736	0.03
<b>Portfolio of investments</b>		25,883,632	97.35
<b>Other net assets</b>		705,242	2.65
<b>Net assets attributable to unitholders</b>		<u><u>26,588,874</u></u>	<u><u>100.00</u></u>

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

## Portfolio Statement

As at 31<sup>st</sup> December 2007

By Geography* (Summary) Quoted equities and warrants	Percentage of total net assets attributable to unitholders at 31/12/2007 %	Percentage of total net assets attributable to unitholders at 31/12/2006 %
China (Including Hong Kong SAR)	15.54	14.93
Malaysia	15.48	6.23
Philippines	1.27	-
Singapore	12.70	18.16
South Korea	18.22	15.71
Taiwan	34.00	40.01
Thailand	0.14	3.80
<b>Portfolio of investments</b>	97.35	98.84
<b>Other net assets</b>	2.65	1.16
<b>Net assets attributable to unitholders</b>	<u>100.00</u>	<u>100.00</u>

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

By Industry (Secondary) Quoted equities and warrants	Fair value at 31/12/2007 \$	Percentage of total net assets attributable to unitholders at 31/12/2007 %	Percentage of total net assets attributable to unitholders at 31/12/2006 %
Information technology	9,309,304	35.01	41.18
Industrials	6,428,980	24.18	17.46
Consumer discretionary	4,127,703	15.52	20.85
Financials	2,360,155	8.88	5.49
Utilities	1,331,333	5.01	-
Consumer staples	877,105	3.30	9.45
Telecom services	726,742	2.73	2.11
Materials	722,310	2.72	1.52
Health care	-	-	0.78
<b>Portfolio of investments</b>	25,883,632	97.35	98.84
<b>Other net assets</b>	705,242	2.65	1.16
<b>Net assets attributable to unitholders</b>	<u>26,588,874</u>	<u>100.00</u>	<u>100.00</u>

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

# Notes to the Financial Statements

Year ended 31<sup>st</sup> December 2007

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## 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 the 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 Return.

# Notes to the Financial Statements

Year ended 31<sup>st</sup> December 2007

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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 31<sup>st</sup> December 2007

- 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

	2007	2006
	\$	\$
Accrued dividends receivable	699	13,462
Amount due from the Manager	849	2,574
Amounts receivable for creation of units	4,900	-
	6,448	16,036

### 5 Payables

	2007	2006
	\$	\$
Payable to unit holders for cancellation of units	38,071	218,072
Accrued performance fees payable to the Manager	74,269	763,994
Other accrued expenses	1,180	32,617
	113,520	1,014,683

### 6 Net Assets Attributable to Unitholders

	Note	31/12/2007	31/12/2006
		\$	\$
<b>At the beginning of the financial year</b>		34,971,306	59,638,847
<b>Operations</b>			
Changes in net assets attributable to unitholders resulting from operations		54,715	1,748,358
<b>Unitholders' contributions/(withdrawals)</b>			
Creation of units		190,436	1,744,532
Cancellation of units		(8,627,583)	(28,160,431)
Change in net assets attributable to unitholders resulting from net creation and cancellation of units		(8,437,147)	(26,415,899)
Total decrease in net assets attributable to unitholders		(8,382,432)	(24,667,541)
<b>At the end of the financial year</b>		26,588,874	34,971,306
<b>Units in issue</b>	7	22,598,867	29,497,533
<b>Net assets attributable to unitholders per unit</b>		1.18	1.19

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.

## Notes to the Financial Statements

Year ended 31<sup>st</sup> December 2007

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7	Units in Issue	2007	2006
		\$	\$
	At beginning of the year	29,497,533	52,884,717
	Units created	153,643	1,539,938
	Units cancelled	(7,052,309)	(24,927,122)
	At end of the year	<u>22,598,867</u>	<u>29,497,533</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, foreign currency risk, and 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 price 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 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 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 exists 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

## Notes to the Financial Statements

Year ended 31<sup>st</sup> December 2007

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 to seek long to medium term capital appreciation.

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

	KRW S\$	TWD S\$	HKD S\$	OTHERS S\$	SGD S\$	Total S\$
<b>As at 31<sup>st</sup> December 2007</b>						
<b>Assets</b>						
Investments	4,843,691	9,042,147	4,129,558	4,491,085	3,377,150	25,883,631
Cash and bank balances	-	284,658	84,207	30,845	478,220	877,930
Other assets	-	-	-	700	5,749	6,449
<b>Total assets</b>	<b>4,843,691</b>	<b>9,326,805</b>	<b>4,213,765</b>	<b>4,522,630</b>	<b>3,861,119</b>	<b>26,768,010</b>
<b>As at 31<sup>st</sup> December 2007</b>						
<b>Liabilities</b>						
Payables	-	-	-	-	113,520	113,520
Due to brokers	-	15,961	47,103	2,552	-	65,616
Net assets attributable to unitholders	-	-	-	-	26,588,874	26,588,874
<b>Total liabilities</b>	<b>-</b>	<b>15,961</b>	<b>47,103</b>	<b>2,552</b>	<b>26,702,394</b>	<b>26,768,010</b>
<b>As at 31<sup>st</sup> December 2006</b>						
<b>Assets</b>						
Investments	5,491,994	13,994,313	5,419,826	3,990,218	5,670,705	34,567,056
Cash and bank balances	212,621	96,373	625,769	58,501	409,633	1,402,897
Other assets	10,216	-	19	3,246	2,555	16,036
<b>Total assets</b>	<b>5,714,831</b>	<b>14,090,686</b>	<b>6,045,614</b>	<b>4,051,965</b>	<b>6,082,893</b>	<b>35,985,989</b>
<b>Liabilities</b>						
Payables	-	-	-	33,279	981,404	1,014,683
Due to brokers	-	-	-	-	-	-
Net assets attributable to unitholders	-	-	-	-	34,971,306	34,971,306
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>33,279</b>	<b>35,952,710</b>	<b>35,985,989</b>

## Notes to the Financial Statements

Year ended 31<sup>st</sup> December 2007

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### *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.

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 limiting 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

	31/12/2007	31/12/2006
	%	%
Expense ratio – (excluding performance fee) for the 12 months ended (note 1)	0.00	0.08
Expense ratio – (including performance fee) for the 12 months ended (note 1)	0.24	1.83
Turnover ratio for the 12 months ended (note 2)	74.35	60.97

# Notes to the Financial Statements

Year ended 31<sup>st</sup> December 2007

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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.

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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