BLOOMBERG TV INTERVIEWED WONG KOK HOI ON 19TH AUGUST 09

B: Your Hedge Fund is up 75% YTD. What have been your key strategies this year behind these strong returns?

WKH: Our main strategy early this year was to take a contrarian view by switching from last year's defensive strategy to a more bullish strategy. The depressed share prices as a result of the heavy selling in the 18 months leading up to March '09 presented numerous opportunities for stock pickers like APS. In some ways it helps when you do not have a strong macro view. At that time, doom and gloom was pervasive. We decided then to focus on well-managed companies with strong balance sheets and resilient earnings selling below book and 3-5X earnings. Even if we were to lose money, we knew we would not lose too much. Naturally, these opportunities don't come by often and hence when they showed up at our doors, we told ourselves not to chicken out, so to speak. The other major opportunity was Convertible Bonds (CBs), which were sold off massively in Q3 last year. As we were familiar with some of the names, we knew that there was good value amongst them. But I have to admit that it was scary to buy at that time even after the research was done. The high yield CBs were suggesting at that time that more than half will go bust. We erred on the safe side by buying a portfolio of 8 CBs just in case we turned out to be wrong on 2 or 3 of the issues. But they all turned out to be good. So much for the efficient market hypothesis.

B: For a long/short fund to go up 75% in 6 months in a tough market is impressive. Did you have to gear up your portfolio to generate those returns?

WKH: No, we did not (see the gross exposure chart). Our gross exposure has not been high—about 120% for the most part of this year. We felt that we could generate the returns if markets behaved irrationally, and hence there was no need to take lots of risk by gearing up the portfolio. What we did was bring up our net exposure from a negative 5% in March '08 to 60% by October '08 and increase it further to 80% by March '09. Most of the returns came from stock-picking.

B: Can you give us a few examples of stocks or CBs which have contributed to your performance?

WKH: KH Vatec, Varitronix, Xinyi Glass, Powerchip June 09 CB and Olam CB. We had since taken profits on Xinyi Glass, Olam CB and Powerchip June 09 CB.

B: You mentioned that you invested in CBs from last year? What made you feel that CBs offered great value?

WKH: From about August last year, CBs faced a barrage of selling from mainly CB arb funds and proprietary traders. The selling was forced on the CB arb traders because of the huge redemptions that they went through. For the proprietary desks of the banks, they had to sell because they were ordered to close or have their trading limits greatly reduced. Whenever there is forced selling, there will be buying opportunities. Many of the CBs were selling at prices which implied that they could not survive the financial crisis. Yes, that period was an unusual period and admittedly many companies were facing tough times. But we thought that sentiment was too bearish and extreme. Our research into many of the companies' fundamentals showed that the market was unduly worried and excessively fearful.

B: Do you think you can generate the strong returns in the 2H?

WKH: We have no skills to predict the market or our fund's returns. What I can only say is that we still find good opportunities. In this environment, we think we should focus on our research and let other investors worry about the market.

B: 2008 was probably the toughest year this decade for hedge fund managers. Many funds, including some trophy funds were down 30-40%. You were down 11%, which is very good. What was your strategy last year that sort of saved you?

WKH: We had very low net exposure for the most part of the year. We even had negative net exposure for some months. Our short positions in some overvalued stocks helped to offset the losses we suffered in our long positions. Our cautious stance saved the day, I suppose.

B: KH Vatec has more than tripled this year. Our data shows it trading below its domestic peer group based on next year's earnings, but at a higher estimated book value for next year. How much upside is there for Vatec?

WKH: It currently trades at 6X '09 earnings. We think a PER of 9 times is probably fair value. Q2 earnings which were announced last week were up 135% yoy. Investors are still unsure of the sustainability of the company's strong turnaround from last year although the last 5-6 reported quarterly numbers have been very strong. We think the current quarter will be another strong one.

In our business we have a tendency to take profits too soon on our winners. We sometimes are victims of that syndrome as well but we try to minimize it by not taking profits just because prices have doubled or tripled. Instead we try to estimate future earnings a little more accurately and look at valuations more closely. It is always tough to forecast the future, but we try.

B: Varitronix trades at a discount to its domestic peers based on next year's earnings and book value... but it has risen about 30% this year, lagging its peers. Why has it lagged? How much upside do you see for this stock?

WKH: Yes, you are right. The stock is very cheap and it has underperformed. This is not a well tracked stock and hence is not well understood. Although the company posted dismal earnings last year, cash flows were indeed very strong because of several non-cash, one-off items. At the time it announced '08 earnings, its price to cash flow ratio was only about 2 times. This year, we are estimating earnings to grow 13-fold. The share price has started to perform only from about 4 months ago. Like KH Vatec, investors are not sure of this year's earnings recovery. If our 70 HK cents EPS turned out to be correct, then the stock should trade at 7 times earnings or more or HK4.20 or higher.

B: How liquid are these stocks? What entry/exit risks do you face?

WKH: Liquidity is average, ranging from USD 500,000 to USD 5,000,000 a day.

B: What is your net position now?

WKH: About 85%.

B: What short positions are you in currently?

WKH: Mostly large cap stocks. I would prefer not to disclose the names

B: And if not, what would prompt you to go short and in which markets, sectors or stocks?

WKH: We tend to short the popular stocks which in our analysis are overvalued. That strategy worked very well last year, but obviously this year it has done less well.

B: Which markets, sectors and stocks offer the best value now?

WKH: We are stock pickers and hence we tend not to look at markets or sectors.

Market Topics:

B: The Shanghai Composite and H-share index fell about 6% and 4% respectively today. What do you make of the slump?

WKH: Investors are concerned that the reining of credit by banks would eventually choke off the economic recovery that is currently underway. However, we do not think it is the policy makers' intent to slow down economic growth at this early stage of the cycle. What they probably would not wish to see is excesses being built in the stock and property markets. The market crash last year is still fresh in investors' minds and at the first signs that the market is cracking investors would quickly rush for the exits. This seemed to be taking place in the last 2 weeks. I do not think that economic fundamentals have changed or monetary and fiscal policies have U-turned. At 20 times '09 earnings, the market is not at bubble valuations yet. Because the markets have done so well since last October, a 20% correction is probably a healthy thing for the market for the medium term. In conclusion, we think the current downdraft is merely a correction in an ongoing bull market.

B: Do you expect a severe correction in Asian stocks?

WKH: Asian markets have moved largely in tandem with the Chinese stock market, although our bull markets started 5 months later. I don't think there is as much concern about bubbles in Asia as in China so I think our markets would hold up relatively better than China's should the later continue to weaken. I know there is concern out there that all Asian markets have risen too fast this year but we must be mindful of the fact that markets have risen from very depressed levels after having faced a barrage of selling for 18 months from October 2007. Asian valuations including China's are not very extended so I don't expect a prolonged, massive melt down. But markets have a life of their own so I can be wrong.

B: What are the implications for your strategy?

WKH: Market forecasts are not our forte. As always, we search for mispriced securities. We like volatile markets because it provides opportunities for stock pickers like APS. We can still find cheap stocks, so we do not think we will have to decrease our net exposure soon. In our case, we think our 50% exposure to CBs provide a good hedge to markets like this.