8I

EMPOWERING GROWTH

INTERIM REPORT FY2017

For the six months ended
30 September 2016

This page has been left blank intentionally.

8I Holdings Limited

Interim Report FY2017

For the six months ended
30 September 2016

Content

Mission Statement and Core Values

Mission Statement

Empowering Growth

"The **8I Group** is founded upon and stands by its mission to provide the right resources to inspire and empower the growth of 100 million lives through Education, Investment and Business."

Core Values

We Uphold the Trust of our Stakeholders

Through our beliefs, behaviour and actions in the long term, which enables us to grow as an organisation with our Stakeholders.

We Take Care of One Another

So that there will be no man or woman left behind.

We Enjoy what we Do

With the beliefs and passion of serving humanity, in order to produce sustainable growth and long term results.

We Do what we Think and Say

As individuals and as a team to uphold the integrity and congruency of the organisation.

We Correct Without Invalidation of Self and Others

In order to take ownership and progress beyond the learning experiences, towards greater heights and achieving personal mastery.

We are Value-Concious, for the Price Paid

As individuals and an organisation to utilise all resources wisely.

Corporate Highlights

26 April 2016

Launch of Inaugural Capital Precession Program

Our subsidiary, **8I Education (S) Pte Ltd**, successfully launched our inaugural Capital Precession Program ("CPP") in Singapore. CPP provides thought leadership training to private business owners and entrepreneurs, so as to empower them to build resilient business models that can drive sustainable growth in their companies, with the goal to potentially seek a public listing. The launch of CPP adds to the list of financial education courses that we offer, and provides us with a potential pipeline of investible businesses for our Private Markets investment team.

13 June 2016

Acquisition of CT Hardware Sdn Bhd

We acquired a 49.99% stake in CT Hardware Sdn Bhd, which is a Malaysia-based business engaged in the wholesale and retail sale of power tools, equipment and machinery since 1977. It is an official dealer for Bosch, and carries other international brands including Kärcher, Grundfos, Skil, Pferd, Toptul, Stanley, Tsurumi, Fasco, Stihl, Robin and Ingersoll-Rand.

29 June 2016

Acquisition of Financial Joy Institute Pte Ltd

We acquired a 51% stake in Financial Joy Institute Pte Ltd, which provides financial and investment education through its main brand, Value Investing College ("VIC"). VIC has been conducting its signature Value Investing Bootcamp ("VIB") in Singapore, Malaysia, Taiwan, Thailand, Myanmar, India and Vietnam, with plans to expand to South Africa, Australia, Philippines, Dubai, Japan and Greater China.

19 August 2016

Sale of Investment in Oxford Views Pty Ltd

We completed the sale of our subsidiary, Oxford Views Pty Ltd, via Oxford Views Pte Ltd. The disposal enabled us to realise a net aggregated gain in sale, and increased our cash on hand to seek other investment opportunities.

7 September 2016

Acquisition of 8 MAD Group Sdn Bhd

We acquired a 51% stake in 8 MAD Group Sdn Bhd ("8MG"), which is based in Malaysia. 8MG has two subsidiaries: MAD Integrated Sdn Bhd ("MAD Integrated") and MAD Training Sdn Bhd ("MAD Training"). MAD Integrated is an integrated branding and marketing communications consultancy providing strategic branding, public relations, digital and event marketing programmes. MAD Training is an educational training and consulting company that provides customised training and performance coaching solutions to both learning institutions and corporations. 8MG's access to potential growth companies in Malaysia is expected to provide us with a potential pipeline of investible businesses for our Private Markets investment team.

Corporate Highlights

28 September 2016

Sale of Investment in Velocity Holdings Pty Ltd

We completed the sale of a partial stake in our associate, Velocity Holdings Pty Ltd, via our subsidiaries Red Hill Pte Ltd and Fusion 462 Pte Ltd. The disposal enabled us to realise a net aggregated gain in sale, and increased our cash on hand to seek other investment opportunities. We continue to hold a 6.2% stake in Velocity Holdings Pty Ltd, which has since been renamed to Velocity Property Group Limited.

30 September 2016

Acquisition of Hidden Champions Fund

We completed the acquisition of the management shares of the Hidden Champions Fund ("HCF") from Emerging India Fund Management Ltd. The HCF will be seeded by us and is expected to house all of our listed investment securities.

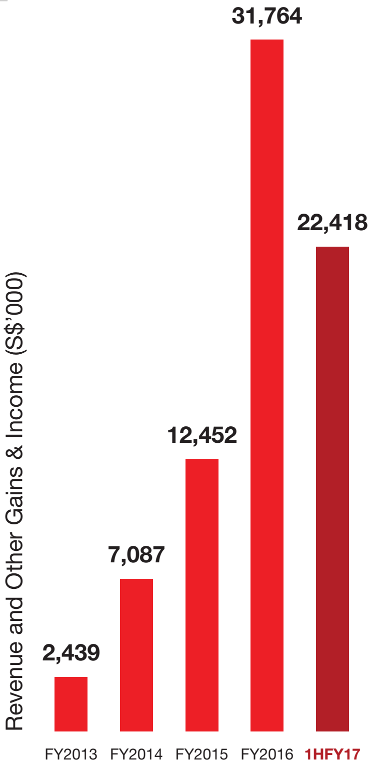
The HCF's investment objective is to achieve long term investment returns in listed equities in the Asia-Pacific through a focused strategy of investing in low-profile underappreciated Asian Hidden Champions. These Hidden Champions are dominant market leaders in sophisticated, hard-to-imitate niche products and valuable critical niches that are largely invisible to the average consumer yet are indispensable to their well-being in daily life. By investing at an earlier stage in the long-term growth trajectory path of these Asian Hidden Champions, the HCF aims to achieve positive returns.

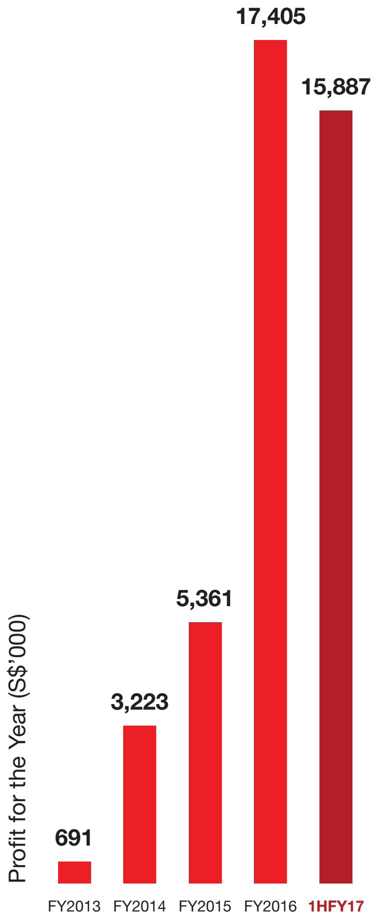
Hidden Champions Fund Logo

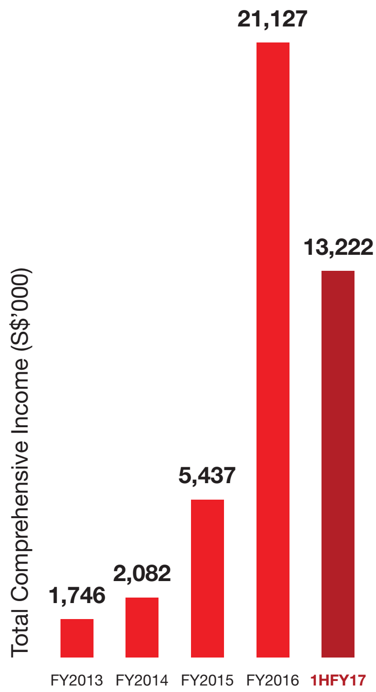
HIDDEN CHAMPIONS FUND
ROOTED IN RESILIENCE

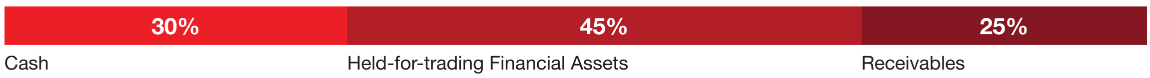
The Hidden Champions Fund logo represents Hidden Champions who are rooted by a greater Purpose, Inner Compass and values system to navigate the adversities in life, to serve their customers and solve their problems better than any competitors, so as to generate resilient growth. They are like lotus flowers growing with determination, rising from the murky water, removing obstacles and remaining unstained and pure, with the lovely blooms of the lotus typifying a chaste and noble heart, opening to the light of value creation in the Asian capital jungles. The muddier and more opaque the water, the more beautiful the lotus flower when it emerges; the tougher the economic environment, the more it never gives up when things seem difficult, and the more resilient it will grow to create and compound value.

Financial Highlights







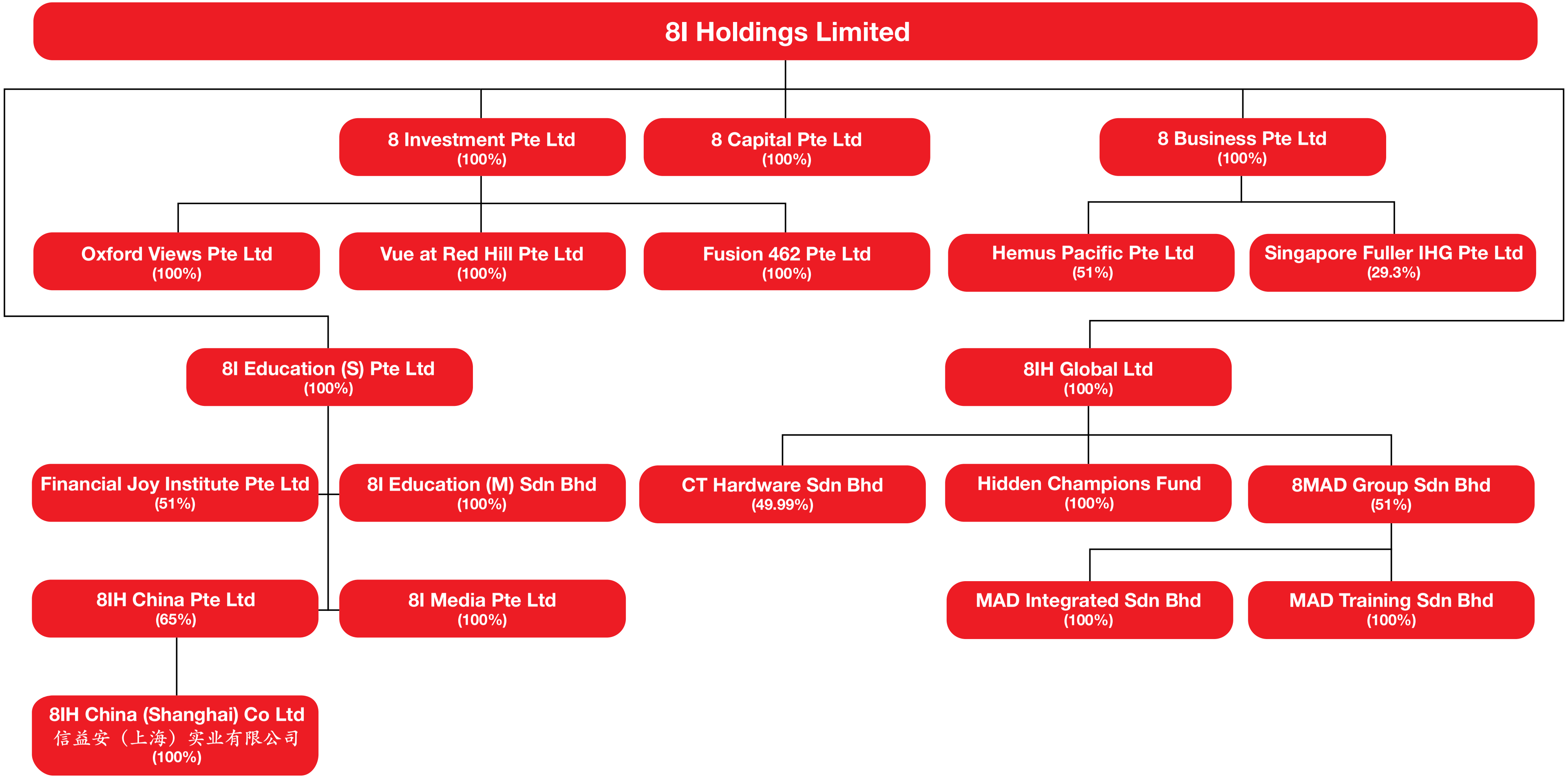


Total Liquid Assets: S$54 Million

8I Holdings Limited was incorporated on 17 May 2014. The financial highlights for FY2013 to FY2015 are computed using financial statement items of the combining entities for the reporting periods in which the common control combination occurs as if the combination had occurred from the date when the combining entities first came under the control of the controlling parties.

Group Structure

As at 30 November 2016



Chairman's Message

Chairman's Message

Dear Valued Partners,

The past few months have been interesting with the surprise Brexit and the unexpected win by Trump. Many major news outlets, as well as political and economic experts, were taken aback by the US election results. In addition, Singapore faces some of the worst debt instrument defaults ever seen in the oil and gas and shipping industry.

What can we learn from these events, especially from the investment perspective?

Three points:

1. It is extremely dangerous to rely completely on so-called "expert advice" given that current affairs are too complex and intertwined globally. Hence, it is best to exercise independent thinking, based on one's circle of competence in a local domain area.

2. The old business wisdom of keeping a low gearing and spending prudently to ensure a ship can sail for long voyages in the face of stormy weather, will always remain true. Many over-confident business owners who believe they can 'catch' the cycle do not learn from history. Those business owners and their shareholders now pay a heavy price.

3. Never say never. Brexit and the Trump presidency have shown us that even an event that has the slightest, most remote probability of happening can happen. Thus, we as capital allocators must factor in the worst-case scenario in our investment approach.

Finally, your company is in excellent shape with a net cash position. Our earnings have increased marginally because your business is investing intensively in talent, processes and systems to position for our next phase of growth. Some groundbreaking new initiatives will be announced in due course.

We are blessed to have your support and I wish you and your loved ones great health, love and abundance!

Ken Chee
Executive Chairman

Director's Message

Director's Message

Dear Valued Partners,

Strengthening our Platform for Growth

It has been a very busy first half of the year for **8I Holdings** (the "Group"). Our teams have been actively executing our plans on many fronts, all of which have further strengthened our business ecosystem for future growth.

Our unique ecosystem, which forms our platform strategy for growth, comprises three business segments that interact, strengthen and support each other. The way for our ecosystem to thrive is to build Champions in more ways than one. I will elaborate further on our Knowledge Champions, Growth Champions and Hidden Champions in a little while.

I am gratified that we have laid a good foundation for the Group within a relatively short period of time. Having said that, we still have a long runway to go to build Champions that will outlast ourselves. The Great Wall of China was not built in a day, but the Chinese were laying bricks to build the Great Wall over a long period of time. Likewise, we are building upon what we have developed, to become a company that you will be proud to own for the long term.

Investing for the Future

The Group delivered a commendable performance for the six months ended 30 September 2016 ("1H FY2017"). With broad-based improvements across all our business segments, revenue in 1H FY2017 surged by 72% to S$21.0 million, as compared to the same period last year ("1H FY2016").

You would have noticed that our administrative and other operating expenses in the reporting period increased more than 57% year-on-year. This was largely due to the higher headcount, professional fees and expansion of our business operations in new markets. We believe these are necessary investments to build the foundation for our future growth and scalability. The way for us to be bigger and better is to grow and nurture our talent pool, while leveraging technology to help scale up our operations.

Notwithstanding the increase in expenses, we achieved a net profit of S$15.9 million in 1H FY2017, consistent with S$15.7 million obtained in 1H FY2016. Excluding other gains, 1H FY2017 net profit would have increased by over 141% year-on-year. Total comprehensive income for 1H FY2017 amounted to S$13.2 million, compared to S$15.6 million in 1H FY2016, mainly due to changes in the fair value of available-for-sale financial assets held for long term.

Despite the flat profits, we urge you not to miss the forest for the trees. The Group is, in many ways, in a better position than a year ago. As explained previously, the investment business tends to be more lumpy in nature. While we can expect (with good strategy, persistent effort and plenty of blessings) a long term growing and strengthening business, we must also accept that this will not happen in a linear and straight line.

What I can assure you is that we constantly keep a close eye on our financial position and balance sheet to ensure that we are always rock solid in our finances even in the most turbulent times. As of 30 September 2016, our Group's total assets stood at S$73.5 million, which have been growing steadily from S$59.9 million in FY2016 and S$40.3 million in FY2015.

Our net assets have similarly grown to S$65.8 million, from S$52.4 million in FY2016 and S$36.5 million in FY2015. Most of our assets are in cash and cash equivalents of S$16.2 million and financial assets (both current and long term investment securities) of S$37.2 million. Our healthy financial position will allow us to sustain and build **8I** for a long time to come.

As announced on 8 November 2016, the Group has instituted a new segment reporting model that reflects a revised management reporting structure and organisational set-up, improves the visibility of each segment's performance, and enhances the management of our business. The new business segments are namely Education, Investment in Private Markets and Investment in Public Markets.

Director's Message

Education – Grooming Knowledge Champions

In 1H FY2017, our Education segment saw its revenue improve by 52% to S$4.1 million, up from S$2.7 million in 1H FY2016, backed by both organic and inorganic growth. We not only expanded our product portfolio with a new "Capital Precession Program", but also acquired and consolidated **8I Education (M) Sdn Bhd** and Financial Joy Institute Pte Ltd ("Financial Joy") which have since become our subsidiaries.

Financial Joy has added a new dimension to our Education business by enhancing both our teams and programmes. Together, we have expanded our reach to more countries and places in Asia, including Taiwan, Thailand, Myanmar, India and Vietnam. Sean Seah and Dr Daniel Kao are leading the team at Financial Joy and are an invaluable addition to our talent pool at **8I Education**.

Investment in Private Markets – Partnering with Growth Champions

The Group's Private Markets team seeks to be strategic investment partners of private businesses which have strong and sustainable business models, with long-term growth potential. We call these businesses our Growth Champions.

As our team grows in number, strength and technical expertise, we have continued to execute our plans in 1H FY2017, specifically:

1. We disposed our stake in Oxford Views Pty Ltd and part of our stake in Velocity Property Group Limited ("Velocity") (previously known as Velocity Holdings Pty Ltd), which resulted in an aggregated gain of S$11.6 million that was recognised in the second quarter of FY2017. After the disposal, the Company currently holds a 6.2% stake in Velocity. We are excited to announce that Velocity is on track to list on the ASX, which is targeted to take place in early 2017.

2. We completed the acquisition of a 51% stake in 8 MAD Group Sdn Bhd ("8MG"). 8MG has two business segments operating out of Malaysia in (i) branding and marketing communications consultancy and (ii) education training and consultancy. Aside from providing healthy contributions to the Group's revenue and net profit, 8MG has regular contact, via its branding and marketing team, with growing companies that provide our team with a potential pipeline of investible businesses.

3. We also invested RM3.8 million for a 49.99% stake in CT Hardware Sdn Bhd ("CTH"). With the capital injection, CTH has set up a new distribution centre to improve the efficiency of its supply chain management and is now working on setting up an integrated Enterprise Resource system together with an e-commerce platform.

For our ecosystem to be successful, it is highly dependent on talent. I am pleased that we have grown our human capital beyond Ken and myself (the founders of the Group), and at the same time, expanded our network of partners and alliances.

Investment in Public Markets – Investing in Hidden Champions

Our Investment in Public Markets segment turned around with strong revenue performance of S$4.1 million in 1H FY2017, compared to a loss of S$2.1 million in 1H FY2016, amidst uncertain and volatile global markets. In spite of the challenging market conditions, I am convinced that we are laying the foundation for great performance in this segment, and the results have come in faster than we expected.

With the acquisition of the Hidden Champions Fund, we anticipate that this business segment will continue to deliver value. While the team has laid a firm foundation with the right investment DNA and processes, which has led to outperformance against various indices, I would still like to reiterate that the contribution from this segment will inevitably be lumpy.

Although I expect our investment team to do well (in spite of the volatile markets), there will be times that despite our best efforts, our portfolio results may show otherwise. We are not overly concerned about short term fluctuations in our performance, and hope you will be focused on the long term, as we are.

This is in line with what we always teach our Knowledge Champions – to look at the longer term horizon and that it is precisely during the down times which affect most investors, when the best opportunities present themselves. So rather than feeling down when markets are down, we must have the mentality and resilience to seize the opportunities and increase our exposure to the Hidden Champions that we have identified.

Our respective team heads will elaborate further on the developments of each business segment. We hope that by the end of this financial year, we will have made further strides in growing shareholder value.

Thank you for entrusting us to run your company. We look forward to your continued support as we focus on positioning our platforms, products and people for long term sustainable growth.

Clive Tan
Executive Director

Business Segment Report
Education

Business Segment Report
Education - Grooming Knowledge Champions

Dear Valued Partners,

Growth of Value Investing Footprints

During the first half of FY2017, **8I Education** ("**8IE**") continued to deliver quality programmes for our participants. In total, we ran three batches of "REITs Program", two batches of "Capital Precession Program" ("CPP"), one batch of "Mencius Advanced Property Investment Course" ("MAPIC"), one batch of "Train-The-Trainer" ("TTT"), and six batches of "Millionaire Investor Program" ("MIP") in Singapore, Malaysia and China.

Our Education business continues to grow our geographical footprint with the successful acquisition of Financial Joy Institute Pte Ltd ("FJI") in June 2016. Incorporated in Singapore in 2012, FJI provides financial and investment education through its main programme, Value Investing College ("VIC") Bootcamp, in Singapore, Malaysia, Taiwan, Thailand, Myanmar, India and Vietnam. As at 30 September 2016, FJI had a total of 1,480 graduates.

With the acquisition of FJI, the total number of graduates in our Value Investing programmes - MIP and VIC Bootcamp - has now reached 6,323.

New Programme to Strengthen our Ecosystem

8IE launched a new programme in April 2016, titled "Capital Precession Program" ("CPP"). Two batches of CPP were successfully conducted with a total of 55 business owners graduating from the programme. CPP aims to provide thought leadership training to private business owners and entrepreneurs, so as to empower them to build resilient business models, develop effective management skills, achieve financial performance and sustainable growth, with the goal to potentially seek a public listing.

After the two-day training programme, our master trainers Mr Ken Chee and Mr Clive Tan, together with our Private Markets investment team, will continue to seek to add value to the CPP graduates' business models and systems. CPP not only adds to the list of financial education courses that **8IE** offers, but also provides the Private Markets investment team with a potential pipeline of investible businesses.

With the broadening of our geographical footprint, programme offerings and talent pool, I am ever more confident that the Education segment is not only well-positioned to provide a stable earnings base for the Group, but also to strengthen our ecosystem in nurturing a steady stream of value investors and potential investee companies and a natural pipeline for our Private Markets investment team.

Pauline Teo
Chief Executive Officer
8I Education

Business Segment Report
Private Markets

Business Segment Report
Private Markets - Partnering with Growth Champions

Dear Valued Partners,

Following up from Clive's director's message, I would like to share more on the intangible but equally important aspect of our Private Markets: the team.

Strength in Diversity

As I write this, there is a warm feeling in my heart as I have personally witnessed the team grow in strength, both in number and in accumulated technical expertise. Our team is now a diverse bunch of seven individuals with different working experiences, strengths and personality traits. Our backgrounds range from financial accounting, law and investment banking, to hospitality, and one even served as a naval diver. With our varied disciplines, we adopt a multi-perspective, qualitative and quantitative approach to assessing a potential investment.

Whilst diverse as individuals, we are bound together by common values and goals. We strongly believe in being responsible capital allocators of our shareholders' funds, and investing in the right business that serves not just the bottom line but also humanity at large.

Beyond Dollars and Sense

We are blessed to meet many amazing entrepreneurs who opened up to us with intimate details of their businesses that they have painstakingly set up from scratch. When there is interest from both sides on a possible investment, we will evaluate their businesses which will inevitably hit a raw nerve, whether positively or negatively. Thus, we are mindful of our choice of words and how we communicate with the entrepreneurs that we meet.

We get ecstatic when we find a great business. Many hours are devoted into discussing ideas and working out the terms of the deal. More often than not, this can take a long time. And sometimes, the deal falls through and both sides can be left disappointed.

Our work is a test of endurance and emotional strength.

What Keeps the Team Awake at Night

We are currently working on multiple projects including:

1. We are in the midst of discussion with a handful of investible companies. We like them as they are able to use technology to create new value in their existing products/services or expertise. They are looking at not only disrupting their existing way of serving customers, but creating a new market and value network. These are the companies to which we will contribute growth capital to, and eventually help to get listed, if suitable. We call these companies our Growth Champions;

2. We are working to form strategic alliances with companies that will enhance the learning experiences of the participants in our Education segment, for example, companies in the Edu-tech space;

3. We are exploring partnerships with companies that will enable us to leap-frog and scale up our product offerings on a much larger platform.

The above list is not exhaustive and at any one time, different team members are working hard to make things happen.

Working Side by Side with our Growth Champions

We interact frequently with our Growth Champions through face-to-face meetings, emails, WhatsApp group chats etc. We also recently held our quarterly roundtable session with our Singapore and Malaysia-based Growth Champions, during which there were mutual exchanges of business ideas and our Public Markets investment team members shared their research materials.

Roundtable Session and Breakfast Networking on 21 September 2016

I enjoy sitting in the management meetings of our Growth Champions. It is awesome watching them in action when roadmaps are plotted out and it is even more awesome when you see the plans turn into reality. In the case of Malaysia-based CT Hardware Sdn Bhd ("CTH"), it was only a couple of months ago that CTH chose the location of their new warehouse/headquarters and finally moved in.

Our Team and CTH at One of the Management Meetings in CTH's Original Headquarters in Petaling Jaya

CTH's New Warehouse at Glenmarie, Malaysia

CTH's New Headquarters

Our other Growth Champions are also developing rapidly and we will update their progress at a later stage, when appropriate. By facilitating the growth of our Growth Champions, we will enable them to move up to their next stage of development quickly.

We hope that this short letter has given you some insights into the team and what we do. Thank you for your continuous support and we will be in touch!

Low Ming Li
Investment Manager
Private Markets

Business Segment Report
Public Markets

"As always, it requires a willingness to stand in direct opposition to the crowd and the vision to think in years rather than days or months."

Kee Koon Boon
Chief Investment Officer

The Insurgent Mission of Hidden Champions: Willingness to be Misunderstood and Travel Light to Journey Far

"Inventing and pioneering requires a long term willingness to be misunderstood. Our willingness to be misunderstood, our long term orientation and our willingness to repeatedly fail are the three parts of our culture that make doing this kind of thing possible" - Amazon's founder Jeff Bezos

"Through our founder's experience and spirit, we understand that wealth earned through hard work, dedication and years of persistence, and through courageously correcting mistakes in trials in experiments and research, is the most valuable of all. Our founder has inspired us to think that 'work that is not profitable is the most lucrative'. If we persist in doing what people think is difficult or foolish or dislike to do, the road to sustainability will open up… Our founder believes in seriously addressing real-world customer problems and if there is a demand out there even without immediate profitability, we will still diligently tackle it with earnest. Okamoto's mission is to use the power of science to build the future with our years of accumulated experience, our proprietary technology honed and accumulated over the decades, our trusted reliability, our ceaseless research, our development that constantly pushes boundaries and our inquisitive spirit that endlessly seeks out challenges." - Okamoto Industries Inc's CEO Yoshiyuki Okamoto

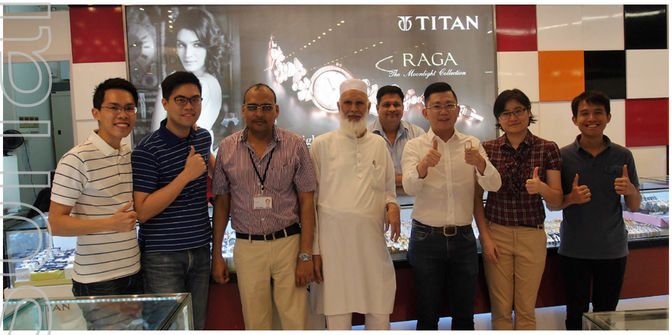
Dear Valued Partners,

Your funds in listed Asian equities achieved a 26.3% 12-month rolling return (in SGD terms) as at 30 September 2016 against an increase of 12.8% for the MSCI Asia Pacific index, 8.3% for the Australia All Ord index, 2.8% for Singapore's FTSE STI index and -5.4% for the Nikkei 225 index over the same period. The cost of the total invested active portfolio in listed Asian equities was S$19.85 million with a market value of S$24.69 million as at 30 September 2016, and a net realised profit of S$0.38 million from closed positions, generating a S$5.22 million overall net investment gain, contributed from S$4.14 million generated in the current interim period from 1 April 2016 to 30 September 2016, and S$1.08 million in the period from 30 September 2015 to 31 March 2016. We would like to express our appreciation for all the support rendered by our members in the 8IH family group of companies and you, our valued partners.

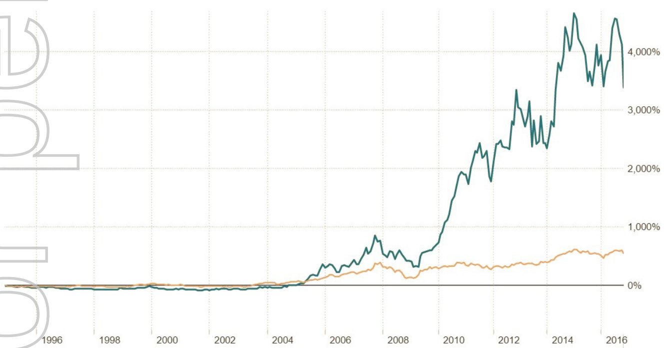
The improvement and outperformance in returns has been developed from an enhancement in the investment strategy and process to pursue an active, bottom-up, research-driven and team-based multi-manager approach since September 2015. Our investment philosophy in value investing is now more defined and deep: our enhanced investment strategy is to focus on investing in successful yet relatively low-profile underappreciated Hidden Champions. These are focused market leaders in sophisticated, hard-to-imitate niche products and valuable critical niche services that are largely invisible to the average consumer yet are indispensable to our well-being in daily life.

Our investment team comprises four mature, motivated and grounded investment analyst-manager professionals whose excellent minds, work ethics, stamina and characters were forged from the anvil of their earlier eclectic working backgrounds ranging from engineering to audit: Joshua Zhang Yaolin, Jackson Yeow Chuan Long, Richard Sim Zhipeng, and Joyce Pang Qin. Joshua, Jackson, Richard, Joyce and I continue to be amazed and inspired at what we can learn everyday about the Hidden Champions and the entrepreneurial story of aligned owner-operators and businesses that stand for a Purpose that is larger than themselves to serve others. This inner drive and joy is our intrinsic reward that inspires the extra level of intensity and dedication in winning together as a team to serve and perform for our investors and shareholders.

Caring is an exacting, serious and demanding business, especially when it comes to being entrusted to invest in another person's financial assets, which represent much more than money – they are a tangible product of one's life's work and a repository of aspirations for the future. We are acutely aware of the intensive work nature with time sensitivity and the weight of short-term performance pressure on our shoulders. We must endure periodic bouts of being misunderstood while we focus on delivering sustainable long-term returns over time. The daily grind of the investment work is not to the liking of most people and the work finds us only when we decide to live with a greater purpose to serve. Like the ancient Painters descending into the clay pits to study the rudiments of color, we enter our 30-square-metre investment room to embark upon a learning journey of self-reflection and discovery to nudge and help one another strive towards mastery and excellence as we lose ourselves in the service of others.



From Left: Richard, Joshua, Titan Branch Owners, Koon Boon, Joyce, Jackson



Share Price Performance of Titan Company Against India's Nifty Index

Of course, we do step out of our clay pits from time to time to scuttlebutt investment ideas as a team. To the left is a photo that we took when we visited Titan Company, India's largest and the world's fifth largest watchmaker whose share price has compounded around 3,500% since 1994 to a market value of US$5.8 billion. I bought a Titan watch as a gift for my dad during a study trip to India where I brought a group of Singapore Management University ("SMU") undergraduates to visit leading companies and interact with key business managers and entrepreneurs, an Accounting Study Mission module which I helped to organise and co-teach as part of my experience during my decade-plus career as a fund manager-analyst and educator.

Tribute to Professor Leong Kwong Sin, Professor Pang Yang Hoong, Professor Lim Soo Pin and Professor Low Aik-Meng

I remain grateful to have had the chance in helping students acquire the required technical competencies, and sharing with them the importance of sharpening their critical thinking skills while embracing the right values and ethics. Some kind feedback from my students in the course evaluation forms that I would like to share to pay a tribute to SMU Vice-Provost and former Accounting Dean Professor Pang Yang Hoong, my wise and kind mentor Professor Leong Kwong Sin, Professor Lim Soo Pin, former Auditor-General of the Republic of Singapore, as well as Dean of Students Professor Low Aik-Meng for their guidance and support:

"This module Accounting Fraud in Asia will undeniably be one of the most useful courses SMU undergraduates will find themselves taking. His exemplary teaching quality and methods will continue to help nurture graduates with an edge who will be highly sought after by corporations. What he is teaching is vitally important, because most accounting systems today are focused on post-mortem fraud, investors today are not equipped with the vital skill of fraud detection ex-ante. His constant encouragement shows his deep concern for our core growth and maturity, not just in terms of academic development and technical skills, but also in terms of our character development and desire to do good for society".

"Besides the technical skills and knowledge, I think there are other aspects of my life that you 'value add' to. For example, how to persevere and be positive, how to 'hold on together' so that 'our dreams will never die'. These are values which other professors will not share. You are one of the most dedicated, hardworking and 'on the ball' professors that I have come across."

Titan Co is an associated company of the Tata Group which has a 20.36% stake. While the $100-billion Tata Group, arguably India's most important business group, is currently facing challenges, coupled with average financial performance without its flagship vehicle Tata Consultancy Services, we have always liked how Tata demonstrated their commitment to the idea that local society can develop local talent in the most adverse of circumstances. In 1987, the Tata Group formed a JV with the Tamil Nadu government ("TIDCO") to open a watch-making factory in the remote South Indian city of Hosur, training the locals to be world-class horologists instead of taking the "efficient" short-cut way of staffing the place with professional engineers from elsewhere. Today, Titan Industries is the world's fifth largest wrist watch manufacturer with more than 60% domestic market share and exports watches to 32 countries, with their core expertise in precision engineering powering innovations. The Tata Group talks not of conquering markets but of serving people. As JRD always says, "What comes from the people must go back to the people, many times over."

The Tata Group saga is a microcosm of the challenges Asia is facing and is particularly relevant at a time when Asia is at a critical transition phase in succession risk (and opportunity) with the patriarchs and matriarchs handing over the reins of their business empires to the right aligned owner-operators and capital allocators. The late American writer Carl Sandburg once said, "When an institution goes down or a society perishes, one condition may always be found. It forgot where it came from. They lost sight of what had brought them along.". We believe that the most resilient companies are those created by action, by doing things, by engaging with people, by revealing and making explicit the firm's values and then living by them, consistently, day after day after day.

The Insurgent Mission of Hidden Champions

To illustrate the potential long-term investment returns in Hidden Champions, consider these examples:

- You wear them, the Crizal lens on your eyewear. Essilor International, the world's leading ophthalmic optics company behind the Crizal and Transition lens. The company is powered by a unique owner-oriented corporate culture with its inclusive plan to enable 50% of employees worldwide become shareholders, compared to 20% currently. Its share price has compounded 2,000% since 1986;
- You lock with them, the ASSA Abloy system for your door. ASSA Abloy AB, the global leader in innovative door opening solutions to improve our lives through security, safety and convenience, its share price has risen 10,000% since 1994;
- You cook with them, peep inside a professional kitchen and you can find a Rational intelligent cooking system on a Norwegian submarine, a Saudi prince's yacht, as well as in hospitals and restaurants around the globe. Rational AG commands a global 54% market leadership in the world's professional kitchens that include the Buckingham Palace and the White House, and is behind the success of famous culinary names such as Gordon Ramsay. Rational AG is up 1,000% since 2000;
- You may use them in emergency care situations, the Ambu bag for manual resuscitation in hospitals, by ambulance services – in fact in all kinds of emergency environments all over the world. Ambu A/S, the company which millions of patients and healthcare professionals worldwide depend upon the functionality and performance of its products, is up 6,000% since 1992.

Hidden Champions, such as Amazon, Essilor, ASSA Abloy, Rational AG, Ambu, Titan, have a sense of an insurgent mission in serving the underserved customers and tackling critical unmet needs, oftentimes redefining the rules of the industry and creating new categories of markets and growth from their indestructible intangible know-how. However, they are often misunderstood during the insurgency process, such as Amazon's Jeff Bezos who made aggressive corporate investments from logistics fulfilment supply chain to Amazon Web Services ("AWS") against experts' advice to capture future competitive advantage, or Titan's "fool-hardy" development of investing in local talent to become world-class horologists instead of parachuting professional engineers. What keeps everyone grounded to press on is that Hidden Champions possess a clear sense of mission and focus that everyone in the company can understand and relate to. Companies that run this way have the special ability to foster employees' deep feelings of personal responsibility and emotional engagement when they make decisions, experiment relentlessly and pursue their objectives motivated by an owner's mindset. Such attitudes and behaviours are necessary to maintain and scale the energy, focus, obsessive attention to the customer and the clean execution of strategies that were the reasons for its initial success and stay true to their insurgency for a long time, retaining the human capital vitality and building market power and influence in the process.

Visionary founders of Hidden Champions have brought important experiences and made critical choices early in the firm's or country's history that leave a lasting organisational imprint in the insurgent mission. We believe imprinting is a learning process that initiates a development trajectory that produces persistent outcomes. Imprinting must take place and take root before the succession process can become successful.

Many Asian businesses fail the acid test: Remove the founder and the business is not worth much; without terminal value, the discounted cash flow analysis would point towards a well-deserved low valuation multiple of the business. This is one of the key reasons why the typical Asian businesses have low – and lower! - valuations as time progress. The Hidden Champions have sustainable businesses because this insurgency takes hold at every level and can outlast the founder. The roots of sustained performance start deep inside.

Diving deeper into this insurgency process, we seek to understand and analyse the problems and paradox of growth that come with scale and observe whether these are present in the companies we invest in as we decide on sizing our investments. The internal strength and vitality of emerging Hidden Champions, which allowed them to take on larger incumbents in the first place, often decline as they grow and succeed, adding complexity in the process and structure that dilute the internal energy of the insurgency mentality. They may have attained a position of industry leadership because of the assets and capabilities that they possess, yet they have largely lost the entrepreneurial energy and flexibility of the insurgency mentality, and they enter a stage of entropy in valuation. At a cursory glance, or even with a detailed workout with elaborate spreadsheets, the valuation appears to get cheaper and hence seemingly more attractive as mispricing opportunities to value investors, but we will avoid them and focus on those Hidden Champions who remain insurgent in their mission.

We have observed that transgenerational entrepreneurial families possess entrepreneurial legacies, the reconstructed narratives of the family's entrepreneurial behaviour and resilience that motivate and give meaning to entrepreneurship with today's risks in perspective, motivating current and next-generation leaders to engage in strategic activities that go beyond ordinary succession and thereby nurture entrepreneurial legacy. Actions that leaders take and routines developed in periods of environmental stress and organisational change, such as frugality in spending, resisting short-term opportunism and calculated boldness in expansion during a severe recession, leading to profound differences in structures, strategies, and product offerings that become "imprinted" and persist over time. Transgenerational entrepreneurial family firms which manage the succession process are stronger and quicker in creating new products and services as niches develop, entering new markets, adopting new technologies, and implementing new ways to organise business activities. Thus, value investors can utilise the imprinting idea to generate questions for assessing the sustainability of the wide-moat beyond ordinary succession.

As an example of our focused application of this investment strategy in Hidden Champions in Asia, one of our portfolio stocks is the Asian innovator Okamoto Industries Inc (TSE: 5122). The stunning quote "Our founder believes in seriously addressing real-world customer problems and if there is a demand out there even without immediate profitability, we will still diligently tackle it with earnest" comes from current CEO Yoshiyuki Okamoto-san, the second-generation business leader of this successful family business established in 1934, which commands a dominant 50 to 60% domestic market share in condoms in Japan, and is the third largest global player and second largest in China.

Under the motto of using science to enrich everyday lives, Okamoto is a quiet innovator in leveraging upon its decades of accumulated deep intangible material science and chemistry know-how to continuously launch innovative new products with long product lifecycle to create new categories of growth, from ultra-thin condoms to an innovative pad that helps heal wounds faster by absorbing moisture, a technology that it adapted from its popular food wrapping film household product, to protective film-coated lining for motorcycle seats where it commands market leadership in the US as well as automotive interior materials (seat and upholstery materials, instrument panels).

The insurgent mission of Okamoto is worth recounting. Before Okamoto, due to limitations of technology and material science, latex condoms in Japan melted under hot weather. The condoms were also too thick (1mm), like a glove, and consumers were not happy. At that time, sexually-transmitted diseases ("STDs") were spreading throughout Japan. In addition, imported foreign-produced condoms cost ¥3 for a dozen; at an age when rice cost ¥0.30, these condoms were not affordable to the masses. Founder Minosuke Okamoto-san resolved to tackle this problem for the Japanese people and thought very hard how to produce a new safer and thinner condom. Minosuke-san also set the target of reducing the thickness of condoms tenfold from 1mm to 0.1mm. It seemed an impossible task. But Minosuke-san never gave up. For thin condoms to have the strength and quality, an intuition flashed in the mind of Minosuke-san when he was looking at latex molecules under a microscope. Maybe a new binding molecule could be added? Minosuke-san spent days and nights in the laboratory in repeating countless experiments to find a catalyst material that can stick the two molecules. Finally, after eight years of trials and errors, the breakthrough came and the highest quality condom was produced.

Subsequently, Minosuke-san challenged the belief that the thinness of the condom had reached its limits at 0.04mm to produce 0.03mm, 0.02mm and 0.01mm condoms from a new material. Through the founder's experience and spirit, the scions of the business understood that "wealth earned through hard work, dedication and years of persistence, and through courageously correcting mistakes in trials in experiments and research, is the most valuable of all". As Yoshiyuki-san shared emphatically, "Minosuke-san has inspired us to think that 'work that is not profitable is the most lucrative'. If we persist in doing what people think is difficult or foolish or dislike to do, the road to sustainability will open up."

In 2005, Okamoto finally introduced the world's thinnest latex condom, at 0.03mm. Until today, their two biggest Western competitors, Trojan (Dwight & Church) and Durex (Reckitt-Benckiser), are still unable to compete with them based on thinness. Durex's thinnest condom is ~0.04mm. Okamoto disrupted the industry in 2010 when they launched their 0.02mm series, made with polyurethane instead of latex. No western peers can match what they do. After 80 years of excellence, the innovative new 0.01mm product was introduced in April 2015. Previously, Okamoto had been lambasted for pursuing technical excellence in the product – do customers care or need such thin condoms? The new 0.01mm product potentially sparked a tipping point change in consumer behaviour from stigma and inconvenience to comfort and enjoyment with the thinness reaching a level to feel the warm intimate connection with their partner.

The return on equity for this world-class Hidden Champion is 15.4% and sales have risen 13.5% since year-end March 2015 with operating profit growing faster at 116% due to its price premiumisation strategy as condom demand shifts to high-priced high-quality products and input price volatility has limited impact on profitability. As Yoshiyuki shared, "If the condom thinness is halved and the selling price is doubled, the company should ride with enough profits." Amidst the tumultuous global business conditions, its fundamentals grew even stronger: In the half-year earnings announcement on 4 November 2016, gross profit margins improved from 25.7% to 29.2%, while making upward revision in the forecast of full-year operating profits by 41% and surprising with a greater than expected increase in dividend per share from ¥11 to ¥14 (the previous forecast was ¥12). Okamoto has delivered an absolute positive double-digit return from our investment cost as at 30 September 2016.

We believe Okamoto Industries embodies the best of patient sacrifice and stable capital for longer-term profound investments in business and people, with relentless and eternal pursuit of excellence in perfecting its offering, institutionalising its craftsmanship and codifying the knowledge to pass from one generation to another. Okamoto stood above most family businesses who entropized into contentment, conservatism and reluctance to embrace relevant change, due to "stability" in its customer base or industry, insensitivity and too late in recognising trends and being too sluggish in responding to changes in the business environment, and fear of losing whatever they have earned so far if they change from their old ways.

Similar traits could be shared about our portfolio stocks which have wide and durable economic moats that generate superior returns on invested capital; unique, scalable business model with indestructible intangible know-how to create new categories of growth; a long runway and addressable market to compound growth; and high-integrity, owner-oriented management teams. That is not by accident, but by design. It is demonstrated in our portfolio performance, of which the characteristics and highlights are as below:

Cost (S$)	Market Value (S$)	Portfolio Weight (%)	Gains/(Losses) (S$)	Gains/(Losses) (%)
19,854,156	24,698,292		4,844,137	24.4%
	Closed Positions		380,221	1.9%
	Total		**5,224,358**	**26.3%**
	Winners	96.2%	4,963,650	25.0%
	Losers	3.8%	(119,514)	(0.6%)
	Closed Positions		380,221	1.9%
	Total		**5,224,358**	**26.3%**

Sector	Sector Weight (%)	Market Value (S$)	Gains/ (Losses) (S$)	Returns (%)
Transport, Travel & Hospitality	44.9%	11,081,753	2,134,345	10.8%
Consumer Healthcare & Consumables	33.4%	8,239,708	2,218,090	11.2%
Specialty Retailers	18.5%	4,569,072	219,052	1.1%
Technology & Media	2.5%	617,348	262,153	1.3%
Business Services & Products	0.8%	190,410	10,497	0.1%
Total Active Portfolio		**24,698,292**	**4,844,137**	**24.4%**
Closed Positions		380,221	380,221	1.9%
Total		**25,078,514**	**5,224,358**	**26.3%**

Portfolio Characteristics Market weighted by Sector	Portfolio Weight (%)	Market Cap (USD'mil)	ROE (%)	3 Year Revenue Growth	3 Year EBIT Growth (%)	EV/Sales (x)	EV/EBIT (x)
Transport, Travel & Hospitality	44.9%	388	25.8%	24.4%	55.9%	2.9	14.6
Consumer Healthcare & Consumables	33.4%	1,212	18.6%	8.4%	40.7%	1.4	13.0
Specialty Retailers	18.5%	765	26.3%	8.3%	44.4%	1.6	16.2
Technology & Media	2.5%	131	31.1%	13.0%	35.6%	3.4	23.9
Business Services & Products	0.8%	2,405	28.0%	23.4%	25.6%	2.3	16.1
Total Active Portfolio	**100%**	**742**	**23.6%**	**15.8%**	**47.9%**	**2.2**	**14.6**

- **High-conviction investment strategy with transparency:** We adopt a high-conviction investing approach with a targeted 25 to 50 stocks and we have 21 Hidden Champions in our portfolio as at 30 September 2016. We have winners comprising 96.2% of the total portfolio value (+25.0% returns), and losers accounting for 3.8% of the portfolio value (-0.6% loss) and a net realised profit of S$0.38 million from closed positions. Out of our winners, we are Top 20 Shareholder for four companies based on shareholder's data from S&P Capital IQ. As a demonstration of our conviction and transparency in the investment process, we aim to be a Top 20 Shareholder disclosed in the Annual Reports of the companies we invest in. We do not invest in and avoid stocks in cyclical industries, including commodities, energy, property & construction, and banks.

- **Low volatility, high resilience portfolio:** Research has shown that the typical investors often inflict harm upon themselves – typically by selling when prices are depressed, and later buying into bull markets at high prices, as well as getting whipsawed repeatedly by choppy market movements, thereby generating subdued returns. Hence, our low volatility and high resilience portfolio with strong defensive character is critical in helping our capital providers stay invested in stormy markets, allowing one to participate in the business execution prowess and long term growth trajectory of quality companies to generate superior investment returns. Our portfolio annual standard deviation is 10.0%, significantly lower than the MSCI Asia Pacific market index standard deviation of 16.2%, which indicates that the portfolio is 38% less volatile than the index. This enables the portfolio to experience fewer negative months than comparable indices, and when it does fall, it falls significantly less than the market, and may even rise. This staying power generates sustainable long term outperformance in difficult times.

- **Resilient structural growth in quality earnings with robust returns on equity:** Our current portfolio stock characteristics have healthy balance sheet fundamentals, with weighted market capitalisation of US$716 million, weighted return on equity (ROE) of 23.7%, and weighted revenue grew by 15.7% over the past three years, generating increasing returns to scale with a 48.2% growth in operating profit. This is due to the scalability of the business model forged by an indestructible intangible know-how accumulated over the years to create value for their target customer base and compound growth with resilience in difficult business environment.

We believe there are few listed investment businesses in Asia that adopt high-conviction investment strategy grounded in value investing principles with a relatively concentrated portfolio in equities. The investment business and strategy that we admire and benchmark ourselves is Investor AB, founded by Sweden's Wallenberg family a hundred years ago in 1916. Investor AB is Europe's largest listed investment company, and a leading long term owner with significant stake in high-quality, international companies. Listed on the Stockholm Stock Exchange since 1919, Investor AB has compounded over 5,500,000% with the dividends reinvested to a market value of US$27.3 billion as at 30 September 2016, and it has a fairly concentrated investment approach, with 47% of its gross assets in four major listed companies: SEB, Atlas Copco, ABB and Astra Zeneca; a further 24% in seven listed holdings that include Wartsila, Electrolux, Nasdaq and Husqvarna, as well as 24% in unlisted investments.

Forward-Looking Fact-Based Fraud Detection System

While a high-conviction investment strategy has worked well for investment businesses such as Investor AB, we believe that value investing needs to be adapted in Asia to mitigate the risks of accounting irregularities and misgovernance, and our investment outperformance with low volatility has been a result of thoughtful systematic improvements to incorporate the fact-based forward-looking detection system as part of the investment process as implemented since September 2015.

For instance, screening for high net cash or high net current asset as a percentage of market value of the company might be the first step for many "Graham-style net-net" value investors to determine the attractiveness in valuation of certain stocks, so that the "asset liquidation value" acts as the floor to protect downside risk against further price declines, thus providing a "margin of safety" and call-option-like returns as mean-reversion works to realise returns over time for the patient value investor. However, their financial numbers could be "propped up" artificially to lure in funds from investors and the studiously-assessed asset value has already been "tunneled out" or expropriated in money-go-round tunneling opportunities via unusual related-party transactions. A number of these supposed value stocks are thematic stocks that are part of the "Ride the Asian Growth Story!". These stocks turned out to be the subject of some exciting "theme", but are inherently sick and prey to economic vicissitudes. They may seem to grow faster initially but the sustainable harvest of their returns is far too uncertain to be the focus of a wise programme in investment. Furthermore, Western-based fraud detection tools and techniques have not been adapted to the Asian context to avoid these traps.

Thus, accounting information can be used to inform – or to deceive. I am fortunate to have taught accounting at the SMU, including launching the inaugural 15-weeks course Accounting Fraud in Asia, and is grateful to be invited by Singapore's financial regulator Monetary Authority of Singapore ("MAS") to present to their top management team. We believe that we are one of the pioneers in incorporating the fact-based, forward-looking fraud detection system that combines accounting data, especially footnotes, with a wide array of contextual information - including unusual related-party transactions; money-go-round off balance-sheet activities; governance, group structure, consolidation accounting and ownership analysis; textual and linguistic analysis; analysis of event-based "catalysts" (information-based manipulation) and sensitive market announcements (action-based manipulation in prices and volume) - to provide fresh insights in equity valuation to inform our decision-making in investments.

Noteworthy is the accounting irregularities in one of Singapore's mainboard-listed companies China Environment Ltd (5OU: SES) first highlighted in February 2015 in the SMU course Accounting Fraud in Asia. The company had all the attractive traits of a "value stock" with single-digit price-earnings ratio and a very low price-to-book ratio. In the month before, China Environment received the Singapore Exchange's ("SGX's") approval to its placement of new ordinary shares and warrants to raise capital from the public which resulted in the share price spiking 20%. In the course, we flagged out its unusual unsecured interest-free loan advances to a mysterious "sub-contractor", sudden increase in other receivables, circular money-go-round transactions in money pledged to give loan guarantees and loans to related-parties, and a multitude of accounting irregularities in the footnotes pointing towards a potential accounting tunneling of assets via short-term rollover loans to undisclosed related-party entities. In June 2016, China Environment was investigated by Accounting and Corporate Regulatory Authority ("ACRA") who had also asked the firm to refile and restate its financial statements for financial years 2013 and 2014 in mid-June 2016 - done under the Financial Reporting Surveillance Programme. This came after China Environment's auditor Baker Tilly resigned on 15 April 2016. In late September 2016, its unit Fujian Dongyuan Environmental Protection received a letter of demand from China Construction Bank for overdue interest on a working capital loan of RMB23 million. A High Court writ of summons had earlier been issued against the founder Mr Huang and his family on 28 September 2016 about alleged non-existent receivables from firms Anhui Shengyun Mechanical and Nanning Youji Technology. The share price of China Environment has plunged 80% since February 2015.

In a presentation to the MAS in September 2015, I pointed out the potential of implementing the world's first fact-based fraud detection system for Singapore using a variety of corporate examples and how huge value destruction and losses harming the minority shareholders of China Environment and many other corporate examples can be avoided. The objective and benefit of this fact-based fraud detection system is not only to detect and prevent, but to also spur corporate reforms. I suggested a public disclosure of the list of companies by the four categories of commonly-used tunneling methods used by actual insiders, manipulators and syndicates to expropriate corporate assets -- (1) Money-go-round intercorporate loans, guarantees, other receivables and investments, (2) Capex irregularities, (3) Deals potion, (4) Consolidation craftiness e.g. the improper pushing of operating expenses and debt liabilities into unconsolidated entities in which the listco has effective economic control and power to artificially inflate its own profit and balance sheet asset value -- on the SGX website to inform and educate public in a Financial Literacy 2.0 campaign. This would prevent harm before fraud happens, and spur the potentially fraudulent firms to act to improve their corporate governance, including returning back part of the expropriated "missing cash", to get themselves off the List. This system is not a company-specific "short-selling campaign" and it is fact-based – so the companies in the List have no grounds to object.

By hanging this sword of Damocles over their heads, this will bring about greater efficiency in the overall regulatory system given the limited resources in going after so many fraudulent cases on a case-by-case basis which may occur and implode systematically during poor market and economic conditions, such as the reverse merger fraud wave in the US that was concentrated in 2011. By flushing out the lemons in the Singapore capital markets, it will no longer be the playground for manipulators and syndicates, and trust and credibility with local and global investors can be restored. A personal belief is that the capital markets should serve the grand purpose of "藏富于民", as a vault for common folks to protect, to preserve, and to compound their wealth in outstanding wide-moat innovators. Until the lemons problem has been resolved, getting retail investors to "invest" their hard-earned savings or/and CPF in the Singapore capital markets is a misguided initiative.

Thus, the pitfalls of investing in the Asian capital jungles due to accounting and governance risks remain very real and the serious investor must never ever dismiss these risks.

"How About Singapore Stocks?"

We are often asked: "How about Singapore stocks?". When the MIT Investment Management Company (MITMCo), the endowment fund of the Massachusetts Institute of Technology, visited my previous fund house in 2011 and 2012, I used the example of local supermarket operator Sheng Siong Group Ltd to highlight our investment strategy and process and that it is one of the few Singapore companies which we can invest S$20 to S$50 million in a single stock for the long term.

I had helped set up a meeting with the owner-operator Mr Lim Hock Chee and CFO Mr SK Wong in May 2011 before the company was listed in July 2011 with a share price of S$0.33 at a market value of around S$443 million. Mr Lim had commented that we were the first institutional fund manager to visit them and he showed us around his new Mandai Link warehouse and distribution centre. I asked Mr Lim about his Hidden Champion neighbour PIN Corporation, the leading cold storage logistics player, next to his Mandai Link HQ and professed my admiration for both him and Mr & Mrs Liew Yew Fah, and asked whether they might come together one day. Like Wal-Mart, both Sheng Siong and PIN are innovators in embedding technology into their business model to scale up, which enabled Sheng Siong to command efficient speed in its inventory turnover and achieve sales at S$17,000 per sqm, which is 40% higher than state-run giant NTUC Fairprice and double that of Dairy Farm Intl/Cold Storage.

Sheng Siong: Spore's Wal-Mart /Trader's Joe SHENGSIONG ... all for you!

5 Jul 2011
Price S$0.33
TP S$0.67-0.90
Mkt Cap S$443m

Shares 1.14bn (pre-IPO)
1.34bn (post-IPO)
Lim family 100% (pre), 72%

Stage 2A
Stock Liquidity N.A.
Div Yield 7% (est)
52W High/Low N.A.

Dec (S$m)	09	10
Sales	625	628
Net	34	43
CFO	54	34
BV (pre; post)		69; 132
ROA		30%
PE		10.3x
P/B		3.3x
P/S		0.7x
P/CFO		13.0x

Gearing Net cash S$41m
Banker OCBC, DBS
Auditor KPMG

(1) Lion Entrepreneur? — A
- Background: 1985, pig farmer (father Lim Kim Siong) to acq of AMK supermarket. 1995: 3 stores (after 10 yrs!); 1999: 4 stores (after 14 yrs!); 2000-05: +13 stores; 2007: +4, SS Msia, Live! show; 2008: +1; 2009: 1st house brand, +1, Diners Club credit card; 2011: +1, +3 Elias Mall Market Stalls. Current: 27 stores (340k sq ft), 10 household brands with over 300 products, network of 1000 suppliers and ctr mfgs, 34 trucks, Mandai Link HQ and warehse/distrb centre (completed May 2011, S$65m, 543k sq ft)
- 3 Lim bros (49, 51, 46) and Econ Minimart founder Tan Ling San (72) joined in 2006; millionaires who work till 11pm, sleeps 1am, wakes up 4am; biz requires daily grit!

(2) Business Model – Scalable? — B
- Operational excellence even in difficult times (sales S$17k/sqm vs NTUC S$12k, DFI S$8.4k), early in investing in MIS system and distb centers (pilferage 0.3% vs ind avg 3%); Inv days 19, AR days 1, while AP days increase from 30 in FY08 to 37 in FY10 = working capital excellence allows for self-financing and low gearing expansion
- Lim confesses he makes most of money in fresh groceries and private labels and NTUC copied him (Trader's Joe!)
- Majority of growth came in poor economic conditions in 2000-05 when Lim was aggressive in expanding to take advantage of low rents. SS was conservative since then even if his vision is 40-50 stores in Spore
- Can Lim invest enough in intang tech vs tang assets?

(3) Rising Tide? — B
- Competitive and saturated? Not as fragmented as before with Sheng Siong eating up market share of Econ Minimart and independent operators' shares
- Discount retailing yet to take full force ; witness how Dollar Tree etc eat up shares of big rivals
- Spore not ready for innovative retail concepts eg Whole Food, Bed Bath?

(4) Fundamental Catalysts? — C
- Msia expansion plans in FY2012; M&As unlikely
- Wet-and-dry concept at Elias and Bedok Reservoir Market stops bleeding
- 1H11 results in Aug might show the shock of Ten Mile closure (Nov10). Tanjong Katong closing in Sep11. Slow takeoff of Teck Whye (May11)? Execute in Aug?
- ESOP is at S$1 vs IPO S$0.38 (est)

(5) Toxicity? — B
- Paid out >S$50m in FY10 before IPO, inc S$42.2m cash and S$37.9m div in 5.6m Citi ($4-5?) and 40m HX sh (S$0.28?). Property leased from private co of owners; ECL Money Changer and SS Food Court biz not in listco
- Family quarrel results in block sell-off; vendor sale
- Rising rental costs and lease renewal risks eg Ten Mile and Tanj Katong (5-10%) close in Nov10, Sep11

(6) Valuations & Action Plan? — B
- Low gearing. May11: S$68.4m cash, S$24.6m debt, but using IPO proceeds S$120m to pay DBS S$30m term loan
- Pay out 90% profit in FY11-12 as div; 7% div yield at IPO S$0.38/S$509m; implying consolidation in next 2 yrs
- If IPO valuation is S$443m, mid-term valuation is S$0.9-1.2bn, or normalized S$60m cashflow x 15-20x, or upside 100-170% in the mid-term (12-18 mths) = bet big

1

Above is a summary excerpt of the 2011 presentation cover slide to MITMCo above to shed insights on the projected valuations in the mid-term of doubling and tripling to S$900 million to S$1.2 billion in the next three to five years – fast forward five years later to the present, Sheng Siong now trades at a market value of over S$1.5 billion.

Other than Sheng Siong which we publicly profess our love for, in terms of the business and the aligned owner-operators; Raffles Medical Group's Dr Loo Choon Yong; a few other listed companies which we have been closely monitoring; as well as a proprietary database built up over the decade-plus of 150 unlisted Hidden Champions, we do not find many other listed Singapore companies which we can be comfortable sizing up to an investment amount of S$10 to S$50 million in a single stock.

You might ask: "How about Singapore companies with brand visibility all around us"?

In our unrelenting effort to serve value investors and the public "to explain, exhort, encourage, inform, educate, advise" in the timeless wise words of the late Dr Goh Keng Swee, one of the founders and chief economic architect of modern Singapore, we would like to share briefly about a listed corporate example of a F&B/FMCG company with "brand visibility" but with potential accounting issues that begged further accounting transparency and disclosures. The objective is not a specific targeting of companies but to highlight the risks involved in thematic investing and to illuminate how the multitude of companies might fall under the forward-looking fact-based system in the four categories of commonly-used tunneling methods as shared earlier. More importantly, we hope to play our small part in crafting Singapore to be a special Home filled with Love and the right values through the sharing of our insights.

Puppet Master: The Pyramidal Story of PT Davomas Abadi

At the corporate level, shares of most companies in Asia are not as widely held as those in the West. From the below table summarising the prevalence of nominee and trust accounts by primary ownership category for 1,386 publicly traded corporations in Asia, Indonesia has one of the highest percentages of firms with nominee accounts or trust holdings that hide the ultimate identity of the shareholders. When corporate transparency and governance is measured this way, the Philippines and Singapore clearly rank at the bottom, while Taiwan is ranked at the top. The controlling owner with the ultimate beneficial ownership is like the *dalang* or puppet master behind the screen, sitting at the apex of the complex pyramidal or cross-holding or dual-class structure controlling the puppet firm(s) with dexterity through layers of intermediate companies, opportunistically misrepresenting economic prospects given weak enforceable legal rules of investor protection in emerging markets. Insiders closest to the dalang would have advance knowledge of the *dalang*'s short term plans, such as major contract wins or business restructuring in asset disposal that could trigger a jump in the share price, or issuance of shares that are dilutive to existing shareholders, or transferring of resources within the group of companies and affiliates via related-party transactions, positioning themselves ahead of the minority investors.

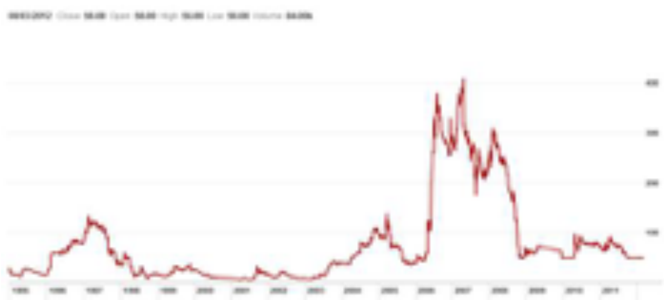
Country	Widely held corporation	Widely held financial	Foreign state	Family	State
Average percentage of shares held through nominee/trust account					
Hong Kong	0.0	3.9	0.0	0.0	0.0
Indonesia	2.7	0.0	6.0	1.5	1.1
Japan	7.8	1.4	0.0	1.1	1.6
Korea	0.0	0.0	0.0	0.0	0.0
Malaysia	0.0	0.0	6.2	0.4	0.3
Philippines	8.0	17.3	21.5	23.1	0.0
Singapore	0.0	21.4	7.4	10.3	31.3
Taiwan	0.0	0.0	0.0	0.0	0.0
Thailand	4.1	5.3	7.0	1.6	2.6
East Asia nine	3.2	5.3	6.8	5.2	4.9
Percentage of firms with nominee/trust holdings > 10%					
Hong Kong	0.0	25.0	0.0	0.0	0.0
Indonesia	21.1	0.0	20.0	7.9	5.3
Japan	30.8	12.5	0.0	6.7	12.5
Korea	0.0	0.0	0.0	0.0	0.0
Malaysia	0.0	0.0	16.7	2.4	1.8
Philippines	42.9	50.0	60.0	60.4	0.0
Singapore	0.0	60.0	50.0	43.6	82.1
Taiwan	0.0	0.0	0.0	0.0	0.0
Thailand	33.3	20.0	23.1	9.1	16.7
East Asia nine	16.8	18.9	24.0	17.1	14.6

Source: Carney and Child (2013), Changes to the ownership and control of East Asian corporations between 1996 and 2008: The primacy of politics, Journal of Financial Economics 107: 494-513)

We often wonder aloud and lament at the low valuations in Asia as compared to the West. Why is it that Asian entrepreneurs do not see the need to build "moats", instead preferring to be the *dalang*? Asian entrepreneurs whom we spoke to over the past decade are often perplexed and exasperated why sales and earnings growth at their companies do not necessarily translate into corresponding market capitalisation growth. Over time, some of these entrepreneurs feel unappreciated and eventually give up on using the capital markets as an integral part of the ecosystem to grow their businesses. They no longer put all their hard-earned assets and earnings into the listed vehicle; crown-jewel assets often remain privately-owned. They are often tempted to expropriate and tunnel out assets and resources out of the companies into their private pockets through related-party or money-go-round accounting transactions. The "value investor" would find these "value traps" attractive, patting themselves on their backs for any short term gains, not knowing that these were all engineered by the *dalang* to suck in naïve capital and that the returns can unwind any time.

Although Indonesia is an investor favourite, corporate governance is a longstanding concern. The case of PT Davomas Abadi, supposedly Indonesia's second-biggest cocoa processing and chocolate firm, is instructive on the ills of the *dalang*.

PT Davomas Abadi - Stock Price Performance



Davomas began in 1990 when the founders saw the opportunity in capitalising the potentials of Indonesia's agribusiness by establishing cocoa powder processing and cocoa butter production facility in Tangerang, West Java. Davomas was listed in the Jakarta Stock Exchange in 1994 and it grew to become the largest exporter of semi-processed chocolate products (cocoa powder and cocoa butter) in Indonesia with international trading houses and large chocolate manufacturers in Europe and US as their customers. Davomas became a darling stock with its growth prospects and technologically-advanced facilities. In April 2007, the main shareholders Tse Kam Bui and Husein Sutjiadi sold a 24.9% stake to a handful of investors at Rp400 per share, raising about IDR 610.2 billion (USD67 million). Reputable foreign institutional investors became significant shareholders.

In May 2009, Davomas shares were suspended because it defaulted on its USD238-million 11% guaranteed senior bonds due 2011. Shareholders agreed to a restructuring plan involving an exchange offer for the original bonds and a USD33-million shareholder loan. The shareholder loan was from the secretive majority owner Tse Kam Bui who controlled five BVI-registered companies that together held a 51% stake in Davomas. The debt to the BVI companies was immediately repaid via a rights offering for those shareholders. The original bondholders took a 50% haircut and exchanged for USD119-million variable interest rate guaranteed secured bonds due 2014 and retained security over the assets of Davomas and the BVI companies. In March 2012, Davomas once again defaulted on its debt due 2014.

In June 2012, Davomas shockingly reported new debt of IDR2.87 trillion to PT Aneka Surya Agro ("PT ASA"), allegedly a supplier to Davomas. Although the debt represented more than four times equity and more than double its IDR1.32 trillion in revenue, no other information about the transaction was given. A second debt restructuring was entered into in July 2012. Strangely, the restructuring was approved by the supplier PT ASA but the vast majority of the company's secured bondholders were not made aware of the bankruptcy court proceedings. The June 2012 debt restructuring called for the conversion of all outstanding debt into equity in Davomas. However, the debt-to-equity conversion required the consent from the general meeting of shareholders and the shareholders' meeting in September 2012 was cancelled due to confusion regarding the identity of the persons entitled to represent the majority shareholders, namely the secretive Tse Kam Bui. The irregularities in its financial statements remained unexplained.

Later, it was suspected that PT ASA belonged to this secretive controlling owner, the *dalang* behind all these undisclosed unusual related-party transactions in intercorporate loans. In January 2013, Davomas was fined by the IDX exchange IDR150 million (USD$15,500). The aggrieved bondholders and shareholders are still demanding for justice for the multi-million default.

The listed F&B company whose shares are rather illiquid is a pyramidal firm part of a larger complex indebted business group and appears to be in a turnaround situation with improving financial numbers at a cursory look after a big-bath asset write down and asset disposal, but still struggled with continued deterioration in sales and gross profit from core businesses as announced in their recent interim results. Without going into details, we are cautious of these issues:

- Complex web of unusual unsecured interest-free intercorporate loans that potentially mask the net debt position of the group, especially when the funds flow to over a dozen unaudited "dormant" and "inactive" subsidiaries and associates who used the intercorporate loans and deposits to possibly secure further loans e.g. multi-million in funds were traced in the footnotes to an unaudited inactive subsidiary incorporated in England where it has no business operations or sales;
- Unusual long term investments in opaque unquoted investment funds with impairment allowances;
- Questionable off-balance-sheet contingent liabilities such as financial support to hugely loss-making subsidiaries with net deficit of hundreds of millions disclosed in the footnotes, where the withdrawal of such propping would result in the non-viability of the going concern status, triggering another round of multi-million asset writedown to reduce the total shareholders' equity by at least a third;
- Disputable assumptions in the impairment test of the multi-million goodwill and intangible assets of the subsidiaries which are hugely loss-making by hundreds of millions; while estimates of the growth rate were lowered substantially from double digits in FY14 to flat-to-single digit in FY15, and the discount rate was not increased but instead lowered significantly by over 300 - 500bps despite the higher risk.
- Capitalising of hundreds of millions of operating leases from the off balance-sheet contingent liabilities into recognising as liabilities in the balance sheet;
- If the underlying economic substance of these impairment losses and impairment allowances were a result of shifting intercorporate loans around, there is potential shifting of these items between the statements of cash flow categories in operating and financing activities to inflate the reported cashflow from operation and the misclassification would reduce the operating cash flow by at least 20% in its recent interim results and turn the previous positive cash flow from operations to negative.

Thus, before investing money in these supposed value stocks, we strongly urge the retail investor to spend only 15 to 20 minutes of his or her time to search the following key words in the PDF copy of annual reports:

- "Unsecured", "interest-free"
- "Other Receivables", "Guarantees", "Financial Support", "Prepaid Expenses", "Prepayments", "Advances", "Other Current Assets"
- "Other Payables", "Accrued Expenses", "Other Current Liabilities", "Other Non-Current Liabilities"
- "Amount Due from/to Related Parties and Directors", "Amount Due from/to Subsidiaries"
- "Restricted Investments", "Deposit Pledged", "Pledged", Investment in "Unquoted Shares", "Unquoted Investment Funds"
- "Deferred Tax Liabilities", "Deferred Tax Assets"
- "Impairment", "Write-down", "Exceptional item"
- "Contingent liabilities"
- "Dormant", "Inactive", as well as the place of incorporation in offshore havens such as British Virgin Islands and tracing whether the unsecured interest-free intercorporate loans, cash deposits and investments in unquoted funds have flowed to these unaudited dormant and inactive subsidiaries and associates which in turn use them to secure more loans;
- "Joint(ly)-controlled", "Joint Venture", "Business Associates", "Associates", "Associated Company";
- "Going concern", "Disclaimer of opinion", "Emphasis of matter", "Restatement"

We also urge investors to take a quick read of the excellent empirical research paper "Incentives to Inflate Reported Cash from Operations Using Classification and Timing" which was published in the top-tier journal "The Accounting Review" by Singaporean accounting academic Professor Lee Lian Fen, currently a faculty member at the Carroll School of Management, Boston College.

THE ACCOUNTING REVIEW
Vol. 87, No. 1
2012
pp. 1–33

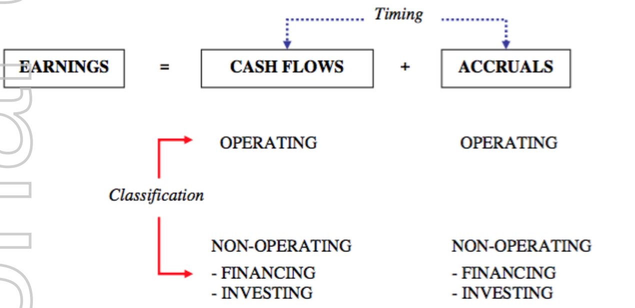
American Accounting Association
DOI: 10.2308/accr-10156

Incentives to Inflate Reported Cash from Operations Using Classification and Timing

Lian Fen Lee
Boston College

ABSTRACT: This study examines when firms inflate reported cash from operations in the statement of cash flows (CFO) and the mechanisms through which firms manage CFO. CFO management is distinct from earnings management. Unlike the manipulation of accruals, firms cannot manage CFO with biased estimates, but must resort to *classification* and *timing*. I identify four firm characteristics associated with incentives to inflate reported CFO: (1) financial distress, (2) a long-term credit rating near the investment/non-investment grade cutoff, (3) the existence of analyst cash flow forecasts, and (4) higher associations between stock returns and CFO. Results indicate that, even after controlling for the level of earnings, firms upward manage reported CFO when the incentives to do so are particularly high. Specifically, firms manage CFO by shifting items between the statement of cash flows categories both within and outside the boundaries of generally accepted accounting principles (GAAP), and by timing certain transactions such as delaying payments to suppliers or accelerating collections from customers.

FIGURE 1
Illustration of how reported cash from operations can be managed



The chart above illustrates how reported operating cash flows can be managed with no change in earnings:

i. *Classification* refers to the shifting of items between the statement of cash flows categories, namely operating, investing and financing, holding earnings and aggregate cash flows constant. To increase reported operating cash flows, firms can classify cash inflows (outflows) from the non-operating (operating) section to the operating (non-operating) section of the cash flow statement.

ii. *Timing* refers to the adjustment of working capital to alter reported CFO, holding earnings constant. To increase reported operating cash flows using timing, firms can delay payments to suppliers and hasten collections from customers.

In recent years, Asian markets have witnessed many cases of dramatic share declines in companies where controlling shareholders and directors pledged their shares to banks to secure debts, margin loans or guarantees of issuers. These parties often utilise these loans for personal investments unrelated to the company's business. The disclosure of shares pledged and margin loans by directors and controlling shareholders and by the parties providing the loans is one area where disclosure requirements vary across the different jurisdictions in Asia. For instance, India (disclosure of details of shares pledged within seven working days) and Hong Kong have mandatory disclosure requirements but there are no specific rules in Singapore under SGX Listing Rules or the Securities and Futures Act.

Manipulative insiders could use the loans secured from the pledged shares to do an insider buying of shares say a few million, to prop up the share price of the listed company which has a market value of a few hundred million, creating a false signal of confidence in the firm's prospects and artificially pump up sentiments and share price to reduce the cost of financing of the loans with market-based debt covenants secured from the pledged shares to utilise in other projects in the wider business group, or to carry out capital market events, such as fund raising via secondary equity offerings (SEO) or/and debt or prior to the expiry of the moratorium period of shares.

We would like to suggest a couple of critical regulatory and corporate reforms to protect the interests of minority shareholders to avoid a repeat of the Davomas saga:

- Mandatory disclosure of whether shares of listed companies are pledged, to whom and the details/terms;
- Reforms to the opaque and complex shareholding structure in piercing the corporate veil to reveal the identities of the ultimate controlling shareholders by dismantling the nominee and trust accounts disclosure regime and expose the *dalang* puppet master and hold them accountable for their actions;
- Mandatory disclosures of the other business interests of the controlling shareholders and how the listco is positioned in the wider business group structure;
- Mandatory audit of dormant and inactive subsidiaries of listed companies;
- Disclosure of the list of companies on the exchange website under the four categories of commonly-used tunneling methods used by actual insiders, manipulators and syndicates to expropriate corporate assets in broad categories: (1) "Intercorporate Loans and Other Receivables" (2) "Capex" (3) "Deals" (4) "Consolidation";
- Redesign the market microstructure by including:
  - The empirically-tested PRIN measure right next to the share price in the exchange website to inform the investing public about potential price manipulation. The PRIN score, which is calculated from broker-stock exchange data, can be sorted in deciles from 0 to 1, and a higher score indicates a bigger probability of price manipulation. The PRIN captures the "principalness" of trades, including wash trades amongst the same small group of collusive parties, and "pump-and-dump" price manipulation scheme, that is, when prices are low, colluding brokers and insiders trade amongst themselves to artificially raise prices and attract positive-feedback traders and once prices have risen, the former exit leaving the latter to suffer the ensuing price fall.
  - Order-based cancellation/manipulation score right next to the volume data in the exchange website. Manipulators generate profits by placing and withdrawing limit orders strategically, involving only submission of buy or sell order limit, followed by cancellation of the order before it is executed. The purpose of the behaviour is to affect the

> view of other participants. For example, if there are lots of limit buy orders placed at a price lower than the current price, there seems to be strong demand of the stock and a so-called support is created. The Australia Stock Exchange imposed a fee on these unusual unfilled order volume, excessive quoting, phantom quotes and quote stuffing, a practice that can be emulated by Singapore Exchange.

Otherwise, after the *dalang* has finished chewing the sweetness of the capital lured into the shares, he or she can easily spit out the pulp. As the sagely Warren Buffett puts it aptly: "But in the end, the only wealth creation comes about through what the business creates. If a company that's not worth anything sells for $20 billion and 5% of it changes hands, somebody takes $1 billion from somebody else, but investors as a whole gain nothing. They are all fee richer. It's a very interesting phenomenon. But they can't be richer as a group unless the company makes them richer."

Interestingly, the examination of the underlying substance and structure of unusual related-party transactions is neither a feature in audit- and financial analysis-related subjects in the university nor tested in the professional CPA and SQP qualification examinations and especially uncommon in the investment industry in Asia. We would like to suggest further educational efforts in this area.

We have been asked why do we not invest in this or that company in Singapore that appears cheap in valuation or a potential turnaround story. Of course, we do understand that the best investments are contrarian in nature and could be companies in a turnaround situation. But there is a critical difference when there are clear accounting irregularities detected in the company. As our good friend, Mr Hemant Amin, who is a highly accomplished and astute Indian value investor who runs his own multi-million family office Asiamin Capital, would ask a simple yet profound question, "How much money can you invest in this idea? $100,000? $1 million? $10 million? If there is an iota of doubt about the integrity of the accounts and management, why take a chance when you cannot possibly size up the investment and your time would be better invested in analysing a high-quality business at reasonable valuations."

An individual may make good money for himself in the short term in opportunistically betting on companies with creative accounting issues, seemingly a skilful genius while his investment size remains small. However, this is akin to pushing a snowball up a snowy mountain, which seems easy at the beginning, but gets tougher as the snowball grows bigger, until at one point the investor finds himself in a precarious position when the gravity of the situation turns the snowball onto him and send him tumbling down the slope. One could make a lot of money nine times out of ten opportunistic bets, increasing his bet size as the profits roll bigger, but it only takes one misstep to wipe out his capital – and his family's and relative's money.

We view such opportunistic behaviour and action unfavourably and believe it is not a sustainable way of investing nor an encouraged way of Life. We could know a character by observing the type of companies a fund manager involves himself with, by observing his way of Life, the congruency of his actions and behaviour against his words or proclaimed values; pretty much the same way we would know the character of the management of listed companies.

This is what I wrote in a comment to Robert Hagstrom's article on CFA about "What is the Difference between Investing and Speculation":

"Investing is the relentless process of translating and refining tacit knowledge into a distinctive and unique investment framework or mental model that is scalable beyond one single person and adaptable in different relevant contextual situations, particularly in dealing with what we do not know. Investors care deeply about ideas and research. Speculators care solely about "making money". Writing, research, ideas, knowledge – these are frivolous/useless pursuits with no immediate or short-term profits to Speculators. Investors have an instinctive longing to weave outside our own skin some reflection of our mind. Investors uphold the notion of responsibility, which emphasises the active nature of the agent/knower, as well as the element of choice involved in the activity of the agent/knower, who can be assessed to be responsible or irresponsible as having fulfilled his obligations to fellow enquirers as part of membership in a community. Getting closer to the truth as a result of one's virtues is more valuable for Investors than getting it on the cheap for Speculators."

We believe the sustainable way of fund management is to build our investment DNA and processes right from the start, deepening the foundation to build a lasting idea and structure larger than oneself with permanence in generating process-based outcome to serve others and be entrusted to handle greater responsibilities in managing more assets, especially the stewardship and care of the assets of other people.

An asset manager's single best investment will be the one he makes in his team and I wish to create a productive culture able to stand the test of time; the organisation will evolve, but the culture endures. By building a team with every member aligned with the mission and reinforcing key principles and values, we can best prepare to execute. I will not hesitate to make the team changes we need to thrive and to make the hard decisions to do the right thing for the firm irrespective of external perception. We will create value with values.

Travel Light to Journey Far

"Tous nos autres biens sont investis dans nos entreprises et nous voulons qu'ils y restent."

"All other assets are invested in our businesses and we want them to stay there." [Translation from French]

The above quote is by Gérard Mulliez, the low-profile mercurial billionaire founder of the Auchan Group and "France's Sam Walton" who said in a rare interview in 2007 that he is the proud owner of his eleven-year-old Mercedes, a house and a second home – and all other assets are invested in the business. His net worth is estimated by Forbes in 2016 to be at least S$35 billion. Gerard Mulliez is also the cousin of billionaire Michel Leclercq who is the founder of the popular sporting goods retailer Decathlon; the Mulliez family owns 40% of Decathlon.

Business Segment Report
Public Markets - Investing in Hidden Champions

The roots of Auchan's success emanate from a tipping point event in 1977: Auchan introduced the first employee share ownership scheme in France at a time when it was quite revolutionary. Employees can transfer part of profit-sharing bonuses to a company mutual fund Valauchan which is invested in Auchan shares. Employee share ownership is a tangible way of enabling each employee to create a personal holding by combining savings with company growth. In time, it can help them to finance personal projects such as access to property, paying for their children's education, or making provision for retirement. On a daily basis, being an employee shareholder (as 97% of Auchan's 55,000 employees currently are) means developing a more responsible attitude to one's work. When everyone is mindful of the company's performance, employee share ownership develops relationship of trust and co-responsibility, and reinforces the sense of pride in belonging to the company. Its success has spurred the development of shareholding abroad since 1996. It is now implemented in 9 of the 12 countries where Auchan operates (Spain, Portugal, Hungary, Poland, Luxembourg, Italy, France, China and Russia), with a total of more than 160,000 shareholders. Over 163,000 employees in 9 countries owned 10.2% of the company's stock.

In Asia and Singapore, the media and most people are enamoured with the wrong "entrepreneurs". The difference between a businessman and an entrepreneur is that a businessman can always make money for himself but an entrepreneur builds an idea larger than himself to serve others and carry more people on board the bus. Outstanding entrepreneurs want to build and scale their businesses so that they can give more. Only when we have the desire to give, then can we want to persevere in building something meaningful. This urge to build in order to give is the magnetic north to scale a durable economic moat, and they work obsessively to realise this vision.

With their simple and obsessive focus on "their work larger than themselves", Hidden Champions are akin to the ancient "javelin warriors" who knew they must travel light to journey far. As described by American author Steven Pressfield about the "javelin warriors":

"All the weight is in their weapons. The crafting of each javelin can take months, with sacrifices offered to the shaft of ash or cornel while it still grows on the tree. 'Truth' is the missile weapon's supreme virtue, meaning the absolute straightness of its line, for a warped javelin will not fly true. No measure is spared to protect its truth. The javelineers sleep with their spikes, wrapping them in their cloaks while they themselves shiver, to keep the snow and wet from swelling the grain. To behold the perfection of flight achieved by a master, his missile neither 'pluming' nor 'tailing', but 'holding its head up' as it tracks in to its target – this is a thing both beautiful and terrifying, and the man who can do it is accounted of supreme consequence. Training with the javelin looks easy; it is impossible. The mere appearances of javelineers in the field has caused valiant foe to withdraw without a fight."

Personally, I am reminded of a local entrepreneur whom we met around a decade ago. The company looked to be a "value stock" with its "cheap" valuations and a niche business operating in a "rising tide". The flamboyant founder boasted to us then that he changed his sports/luxury car every few months and that he "can always make money". Its market cap has since collapsed by more than 70% and continues to trade even further below its book value. I am also reminded of a classic quote in a Bloomberg interview in July 2012 done on the Freitag brothers – Markus and Daniel – behind the highly successful eponymous-branded rugged but sexy bags and fashion accessories made from recycled old truck tarpaulins in their Zurich factory since 1993:

"Our company is our Rolls Royce. We reinvest everything because we want to grow by our own means."

Accounting researchers Abbie Smith, Robert Davidson and Aiyesha Dey had published in the top-tier Journal of Financial Economics the intriguing empirical research paper "Executives' 'Off-the-Job' Behavior, Corporate Culture, and Financial Reporting Risk" in which they examined U.S. firms from 1980 to 2010 how two aspects of CEO behaviour outside the workplace, as measured by prior legal infractions and the ownership of luxury goods, are related to the likelihood of misstated financial statements, including frauds and material reporting errors. Frugality affects an executive's stewardship of corporate resources and indicates an enduring corporate trait of consistent disciplined management of spending to achieve long term strategic objectives.


Contents lists available at ScienceDirect

Journal of Financial Economics

journal homepage: www.elsevier.com/locate/jfec

ELSEVIER

Executives' "off-the-job" behavior, corporate culture, and financial reporting risk☆

Robert Davidson[a], Aiyesha Dey[b,*], Abbie Smith[c]

[a] McDonough School of Business, Georgetown University, USA
[b] Carlson School of Management, University of Minnesota, USA
[c] The University of Chicago Booth School of Business, USA

ARTICLE INFO

Article history:
Received 1 April 2012
Received in revised form 28 February 2013
Accepted 12 March 2013
Available online 2 August 2013

JEL classification:
M14
G34
G38

Keywords:
Executive frugality
Legal infractions
Financial reporting risk
Corporate culture

ABSTRACT

We examine how executives' behavior outside the workplace, as measured by their ownership of luxury goods (low "frugality") and prior legal infractions, is related to financial reporting risk. We predict and find that chief executive officers (CEOs) and chief financial officers (CFOs) with a legal record are more likely to perpetrate fraud. In contrast, we do not find a relation between executives' frugality and the propensity to perpetrate fraud. However, as predicted, we find that unfrugal CEOs oversee a relatively loose control environment characterized by relatively high and increasing probabilities of other insiders perpetrating fraud and unintentional material reporting errors during their tenure. Further, cultural changes associated with an increase in fraud risk are more likely during unfrugal (vs. frugal) CEOs' reigns, including the appointment of an unfrugal CFO, an increase in executives' equity-based incentives to misreport, and a decline in measures of board monitoring intensity.

© 2013 Elsevier B.V. All rights reserved.

Personally, I think that entrepreneurs without a long term strategic mission and a larger-than-self purpose for their company and its stakeholders are more inclined to indulge in an ostentatious lifestyle and to tread the hedonistic treadmill that befits their personal status and to reward their personal hard work. Such behaviour outside the workplace could be damaging to getting the network effect in creating powerful moats before self-perpetuating growth kicks in for the company to grow stronger over time.

We believe it is not enough to invest in aligned owner-operators who are javelin warriors travelling light. We ourselves must "travel light". Value investors need to have the same heartbeat as the wide-moat compounding Hidden Champions: value investors cannot see the Hidden Champions as some dragons to slay; we got to look at them with soft eyes until everything – us and them - becomes one.

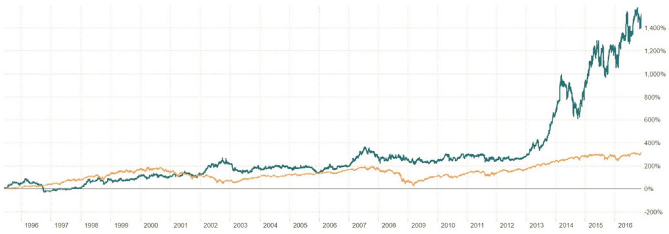
We strive towards congruency in thoughts, behaviour, action and life values with our investment philosophy and strategy, whether in having no personal trades in the investment universe of the stocks the portfolio invests in, and even in our eating habits. When I dine at the Nex Serangoon shopping mall, my choice is clear. I would head to a Japanese fast food cafe specialising in grilled chicken called Torigo to order the S$5.50 tasty and less-oily Amai grilled chicken wings rice with French fries because it cooks the food using the Rational AG intelligent commercial kitchen ovens, as well as stores its food in the industrial refrigerators produced by one of our Asian Hidden Champions portfolio stock.

Besides commanding a domestic market share of 46% for industrial refrigerators, this Asian Hidden Champion is also partly behind the reason why some of your ice-blended drinks taste so much smoother than others: the ice flakes that are blended in most Starbucks and The Coffeebean & Tea Leaf outlets in the world are made by their automatic ice-making machines which contain highly intricate details in the cooling elements and unique freezing process, ensuring the ice flakes are consistently of the highest quality and crystal clear throughout the ice-body. This Asian Hidden Champion has an overwhelming 66% domestic market share for ice-making machines (27% global market share), as well as 44% market share for dishwashers and 66% market share for draught beer dispensers. To the end user customers, total cost equals purchase cost, operation cost and maintenance cost. This is why this "ice king" is clearly the leader in investment value. Its reliability and dependability are unparalleled in the industry. The commitment to quality continues after the sale with excellent after-sales service with speedy response and on-site technical assistance. This Hidden Champion believes each employee is a part of the concept of shared responsibility for assuring customers the best possible quality. From the design engineers, manufacturing employees, marketing and sales people and all those involved throughout the organisation all the way to its distributors – working together is the key to success. This Asian Hidden Champion is up 10% from our investment cost.

Similarly, do you know that 70% of the tea filter bags in the world are made from the automatic packaging machines by one hidden champion called IMA SpA located in Bologna's Emilia Romagna known as the "Packaging Valley"?

At the 14th Annual Value Investing Seminar held in Italy's Trani organised by our friend Ciccio Azzollini, who is the CEO of Italy-based investment vehicle Cattolica Partecipazioni, and which I attended with my good friend John Mihaljevic, the creative genius behind the Manual of Ideas, I asked the audience of fellow institutional investors the rhetorical question: Why is it that throughout the 2008/09 global financial crisis, Italy has remained Europe's second-largest export economy, after Germany, despite Italy being ranked as the 80th place in the World Bank's "Ease of Doing Business" survey because of strong labour unions, seemingly boundless bureaucracy, organised crime, and endemic tax evasion?

Share price of IMA Industria Macchine Automatiche SpA (IMA:MIL) vs S&P 500 Index



I shared how even in the most austere of environment, wide-moat Hidden Champions are able to compound value in uncertain times, such as the low-profile IMA SpA controlled by the Vacchi family, who is the dominant leader in tea filter bag packaging machines, including high-tech automatic machinery applications in packaging for soup cubes and dairy packaging machines (cheese, butter, margarine, yeast) with a 70% global market share, pharmaceutical (tablet, capsule filling, coating, freeze dry etc), cosmetics, coffee and foods. IMA has filed over 1,200 patents worldwide and has launched many new machine models over the recent years. Over 400 of its 3,600 workforce are designers committed to product innovation.

During our **8IH** monthly townhall meeting, I noticed that Selina Su Fangqin, from **8I Education** team, was reading a book by Japanese billionaire entrepreneur Dr Kazuo Inamori, 稻盛和夫, and she shared that she was reading the book to better communicate and interact with her customers who are SME business owners. I shared with Selina that Dr Inamori is one of the most inspiring entrepreneurs in Asia and we deeply admire and respect him. Dr Kazuo Inamori is the founder of Kyocera Corp, the global leader in advanced ceramics and solar electric generating systems. The inventions of Dr Inamori, who was the first person in Japan to synthesize Forsterite, a kind of ceramic that played a pivotal role in electronic circuitry for TV sets, helped supported Japan's global revolution in TV manufacturing in 1950s after WWII. Kyocera's advanced ceramic materials also fostered the development of the semiconductor industry. It is their social mission that distances the hidden global champions from the rest in their staying power and endurance.

Business Segment Report
Public Markets - Investing in Hidden Champions

Born into poverty, Dr Kazuo Inamori lost his family home at age 13 and almost died that same year after contracting tuberculosis ("TB"). A religious neighbour handed him Buddhist religious tracts, urging him to meditate on the meaning of life. As he meditated, his TB subsided. His reprieve left him with the idea that he should strive for the betterment of humanity. Carrying this value in his heart, Dr Inamori built two world-class companies from scratch in the course of a generation – Kyocera (founded in 1959) and Japan's second largest telecommunications firm KDDI Corp (established in 1984). Through his commitment to society, which include the creation of the Nobel-class Kyoto Prize which honours contributors in technology, science, arts and philosophy by his Inamori Foundation, and as President of Seiwajyuku, a business leadership association dedicated to nurturing business owners and entrepreneurs, Dr Inamori carries the voice of entrepreneurship on a global scale as the "Entrepreneur for the World", an award he was presented with during the World Entrepreneurship Forum in 2009. Ordained as a Buddhist monk at 65, Dr Inamori shared his words of wisdom which we believe value investors would pay heed to observe whether the owner-operators they invest in possess this quality:

"If your goal is to be a rich and beautiful celebrity, or if you are not willing to sacrifice yourself for the world and other people, do not try to be an entrepreneur. Entrepreneurs have heavy responsibilities and must share the fruits of their labour with employees and shareholders. We must always have criteria in our hearts that can help us answer the question, 'What is the right thing to do as a human being?' and guide us to do what is good for society and humanity in our daily work."

Our Divestments

We are positive on the Indian market as a fertile ground for the emergence and growth of Hidden Champions. India is also a unique vibrant and versatile hub for "frugal innovations": various varieties of cost-effective and affordable solutions that cater to underserved consumers. We have invested in May 2016 in an Indian frugal innovator at 5.93% of our portfolio, a position which delivered realised net returns of 64.1% from our investment cost. Noteworthy is that our Hidden Champions portfolio has our own FPI account and direct legal stock ownership when investing in Indian equities, as opposed to other funds purchasing stocks through a nominee.

Our decision to realise the profits in this Indian frugal innovator was not an easy one. It was consistently ranked as one of the top companies to work for, standing shoulder to shoulder with giants including Google and American Express, and the source of employees' happiness comes partly from them knowing that their work matters, that they touched someone's life, and that they are empowered to make decisions within a systematic process that truly benefit their customers. More than half of the employees were shareholders of the very company they represent; such is the owner-operator power that our Hidden Champion draws strength from to grow exponentially from a humble borrowed office to a pan-India presence with close to 500 branches and more than 8,000 employees serving over 3 million loyal customers in providing a valuable service to those most in need.

We like their technology infrastructure enabling their business model scalability. Having understood where efficiency can be improved in the conventional system, and with limited resources in the beginning, the founder adopted technology from day one to speed up processes and reduce costs, resulting in service turnaround time to reduce drastically from the typical 30 days to less than 7 days. The use of technology improved work place engagement and governance, increased the accessibility of products to the customers and enabled them to scale up operations in a secure and efficient manner and to expand into new products, customer segments and regions with the right risk management. All these helped the company to maintain a low-cost base and ensures the sustainability of their services.

While the company is arguably the most efficiently managed, with one of the best returns on assets in the industry, and has reasonable valuations, the industry niche they were operating in became much overvalued in our view. We were also concerned about possible regulatory changes imposed on the industry due to possible lobbying by the bigger, sluggish and envious incumbents who had neglected the needs of this underserved niche customer segment over the years. We remain very impressed with the entrepreneur's insurgent mission and the team's servitude and will continue to monitor them keenly as they progress and transform the industry in India.

Another divestment that we made was Australia's Capilano Honey, the market leader in packaged branded honey with 80% domestic dollar market share and a mainstay in the lifestyle of Australians for decades. We had fully sold out in June 2016 to recognise a 6% absolute gain. We were triggered to rethink the moat of Capilano after a series of events unfolded after our initial investment thesis which could lead to an accelerated erosion of moat.

On 2 March 2016, New Zealand's Comvita and Capilano announced an Australian apiary collaboration where Capilano would provide existing manufacturing and processing facilities, staff and relationships to Comvita. This raised concerns behind this seemingly collaborative yet possibly competitive joint venture. We made enquiries over several calls to Capilano's management and we were always impressed with their candour. In one of the calls in early May 2016, we were concerned over their comments and the choice of a word they used.

Having interacted with different types of management over the past decade, we believe the disclosure of words - its level (how much you say), its tone (what you mean), and its transparency (how you say it) – can reveal much. Linguistic communication is an important source of qualitative information with valuation relevance about the firm. The certain choice of word, sentence structure and other features usually represent unconscious behaviours and thought processes.

The usage of that word was seemingly innocuous in the context, yet it could probably project from the subconscious of the management that with this "collaboration", the power dynamics would likely shift over to Comvita. While Comvita's honey products were angled towards pharmaceutical health food and Capilano's products towards retail grocery, what we thought was an unassailable 80% domestic market share and asset-light business to expand into health food was now under pressure from Comvita when they start buying up strategic beekeeping assets in Australia, forcing Capilano to either follow suit and abandon its asset-light business model. We decided to divest partially. However, another event happened just two weeks later to trigger our decision to divest fully. On 23 May 2016, Capilano called for a capital raising at 7.7% discount to defend its position and plug capital gaps with the usage of the funds stated to "fund the acquisition of beekeeping enterprises" among other uses. Subsequently, on 20 June 2016, the rights issue was 34% under-subscribed and subsequently, we sold most of our stake, fully divesting out of our position on 26 June 2016 with an overall 6% absolute gain.

We cannot guarantee success in investment outperformance over the short term, but we can certainly guarantee one thing: our shareholders will be proud to be able to participate positively in the resilient growth of these wide-moat Hidden Champions who are solving real-world problems and have helped to create what the world around you looks like today and tomorrow. You will also be a proud and happy parent for your children when they work in these Hidden Champions. As George Washington puts it aptly, "We cannot guarantee success, but we can at least deserve it".

We are cognizant of the continued and likely greater market volatility and fragility. Donald Trump's election as the 45th President of the United States has triggered over US$1 trillion in bond losses from the steepening yield curve and the dollar at the highest level in 14 years since April 2003 against a basket of currencies. This might lead to the unwinding of multi-trillion carry trades, which have been funding the chasing of yield-assets from junk bonds, REITs to "dividend stocks", to further destabilize the markets with bouts of extreme volatility. We remain sober, cautious and vigilant from the vantage of a bottom-up stock picker. There is absolute value to be found in quality companies, particularly the Hidden Champions, to offer de-correlated returns as they continue to consolidate and win market share and create new categories of growth. As always, it requires a willingness to stand in direct opposition to the crowd and the vision to think in years rather than days or months. We believe that what we have created is a distinctively unique and transparent investment strategy and process with a clear view on fund capacity build-up and ability to handle size.

Thanking Our Investment Analyst Intern Jonathan Leong

We would like to thank Jonathan Leong Zhijian, an SMU finance undergrad, for his work contribution when he was our investment analyst intern from May to August 2016. Throughout my career as a fund manager, I have always looked for people, including assessing top managers at leading listed corporates in the Asia Pacific region, with the unique mix of entrepreneurial bent (the desire and will to create), intellectual capacity (knowledge of what and how to create) and perseverance (staying power to build upon creations). Jonathan has the potential to be one of those people who can be a significant contributor to society. I find that Jonathan is one of the few young leaders who has the character and temperament to be entrusted to handle and analyse sensitive and important data and information. He is also quick to grasp the essence of the complex issues surrounding the target/topic of analysis. I guided and encouraged him to apply his variant perceptiveness to write a series of op-ed articles for the newspaper under the theme of "Insights from Hidden Champions for Singapore Inc". I would like to follow up with him to continue to improve, edit and hopefully publish them together with our investment team.

Intervarsity Stock Research Challenge: Unearthing Hidden Champions

To promote the study of value investing and foster intelligent research on Hidden Champions in Asia, the investment team originated the idea of holding an intervarsity stock research challenge and collaborated with our Education team to hold the Challenge within the 6th Value Investing Summit ("VIS") 2017 on 14-15 January 2017 at the Singapore Expo. Started in 2012 as a two-day networking and guest-speaker event with

Business Segment Report
Public Markets - Investing in Hidden Champions

500 participants, the VIS has since attracted 1,600 participants in our record-breaking VIS 2016 with the largest gathering of value investors in Asia Pacific. Past and upcoming VIS speakers include Dr Niwes Hemvachiravarakorn, Mr Hemant Amin, Ms Lauren Templeton, Mr Scott Phillips Jr., Darkhorse Capital CIO and founder Mr Mohammed Ali-Reda.

The Challenge is a platform that enables students to advance their analytical skills and earn exposure and recognition in the community of value investors and some of the most notable minds of the investment industry. The winning team of the Challenge will also earn a prize money of S$5,000 and a Trophy engraved with their institution's name. We have assembled an expert judging panel of highly-respected professional institutional investors and fund managers to assist in determining the winning team. Four varsity teams will be selected to present to the expert panel and the 1,600-strong audience. Contestants will be judged on the merits of the investment thesis and the depth of research. For more information, please visit:

http://valueinvestingsummit.com/varsitychallenge/

"This is precisely the time when Hidden Champions and value investors go to work."

Toni Morrison, American Pulitzer-Prize novelist, recipient of the 1993 Nobel Prize and Professor Emeritus at Princeton University, made a poignant commentary about why task of the artist is a grounding and elevating force in turbulent times from her earlier stunning essay in the 150th Anniversary Special Issue of The Nation. When "artist" is replaced by "Hidden Champions and value investors", we believe her inspiring words would be applicable for value investors seeking to navigate the turbulent and fragile markets:

"This is precisely the time when artists [our insertion: Hidden Champions and value investors] go to work. There is no time for despair, no place for self-pity, no need for silence, no room for fear. We speak, we write, we do language [our insertion: value investing]. That is how civilizations [our insertion: markets] heal. I know the world is bruised and bleeding, and though it is important not to ignore its pain, it is also critical to refuse to succumb to its malevolence. Like failure, chaos contains information that can lead to knowledge — even wisdom."

We are thankful to have your patience, trust and support in this journey while we work with deep intense focus. We will continue to travel light like the javelin warriors to journey far in search of the compounding Hidden Champions. Please contact us with any questions, thoughts or comments at: analyst@8investment.com.

Kee Koon Boon
Chief Investment Officer
Public Markets

Oceania (Australia/NZ), ASEAN and Tech Sector

Monitored by Joshua Zhang

- **Australia – Economic transformation, the new mecca for global tourism:** Australia achieved surprising economic resilience due to structural transformation of her economy and how the tourism industry is a key strategic focus. Rising as the new mecca for global tourism due to problems such as terrorism plaguing traditional powerhouse Europe, we greatly favour Sealink as the nation's largest tourism & transportation group, its vision of connecting Australian's icons & landscapes to the world, a dominant service provider across several key markets via Capitan Cook Cruises and its quasi-monopoly status at Kangaroo Island which recently opened a new 61-km, five-day nature trek. Its full year earnings announced on Aug'16 saw gross margins improve from 33.9% to 38.4%, and operating leverage drove operating profit improvements by 141%. Generating a ROE of 25.8% it is still attractive at EV/EBIT 13.8x. Visible long runway & growth includes organic integration of key acquisitions, expanding ferry services to North Stradbroke & Tiwi and pursing efficiencies via tech platform and to scale up online sales, which now contributes over 23% sales. Sealink launched an innovative public commute service to drastically cut short the travel time from Watsons Bay to Circular Quay from 40 mins to 15 mins, saving peak-time hassle of driving and competing with the chaotic traffic; with strong demand met with the unveiling of its largest and fastest catamaran ferry in November 2016. This unique and pioneering class of light ferry will be added to other upcoming routes serving Sydney's tourists. Since our initial stake in Oct'15, visitor arrivals increased from 7.3m to 8.1m per year; the 8m mark was cracked in a historic first in the tourism industry. Initially taking 6 year to climb from five to six million, the supercharged growth since 2013 is supported by strong Coalition Government, breaking the six, seven, and now eight million mark in 3 years.

- **The silent coffee war – chip it like Swatch!:** Secretive billionaire Reimann brothers behind coffee empire Jacobs Douwe Egberts BV (JDE), announced in Nov'16 an offer to gobble Singapore's Super Group for US$1 billion right after buying K-Cup maker Keurig for US$13.9bn in 2015. To lay the final crown jewel asset of their global coffee dominance, they might emulate the Swatch strategy where the watch king acquired ETA SA, the hidden champion with a 75% global market share in mechanical ébauches, outsourced by many premium brand watchmakers. Jacob's "ETA SA" is a company whose component is the critical brain powering most major higher-end fully-automated coffee-making machine sitting in thousands of Starbucks, McDonalds Cafés. Customer stickiness and switching cost is high as total recalibration is needed, affecting the taste of the coffee. This component controls pressure, temperature and quantity of coffee, milk, water, even allowing corrective measures based on hardness of water depending on location & source, which drastically changes the taste & consistency of every brew, an oversight to many professional baristas. Our portfolio is positioned in this ASEAN hidden champion and is a sure target for any player seeking global dominance in the coffee industry.

India, Japan and Consumer Sector

Monitored by Jackson Yeow

- **Mass flourishing – Uplifting the neglected Bottom-of-Pyramid (BOP):** We synthesise and adapt the insights of Nobel Laureate Edmund Phelps' "mass flourishing" of grassroots innovation and CK Prahalad's "Fortune at the Bottom of the Pyramid" to investigate resilient firms that have a direct relationship with millions of underserved customers. We have invested in an Indian BOP innovator which has pan-India presence with 500 branches and more than 8,000 employees serving over 3 million loyal customers. Powered by its tech-enabled business model which keeps costs low, this frugal innovator is able to triumph where India's state-owned banks could not. Subsequent industry overvaluation prompted our portfolio decision to divest and conserve the absolute gains of 64% from our cost.

- **Frugal healthcare innovators – Serving people with our hearts:** An unsubsidised coronary bypass surgery is under US$1,400 in India while a similar procedure can cost US$100,000 in the US. This low-cost healthcare for the masses is possible because of frugal world-class healthcare innovators such as Narayana Hrudayalaya and Dr Lal Pathlabs and Aravind Eye. They are able to keep operational costs low by redesigning their business models: Narayana incurs about S$34,000 annual operational expenses per bed as compared to about S$180,000 for Singapore private healthcare providers. Indeed, we are heartened by their motto: "None shall be turned away because they can't pay."

- **Swadeshi businesses – Made in India, Made for the world:** In Singapore, every third car is powered by a Made-in-India car battery, especially amongst the ComfortDelgro taxi fleet. We like Indian manufacturing businesses with a pan-India network and export growth potential. To achieve both, it requires a deep understanding of the 29 states' differing cultures and languages, and a relentless focus on R&D and quality, respectively.

- **Update on Okamoto – Staying true to mission pays off:** Disciplined focus in product innovations propel outsized earnings growth. Condom demand has shifted to higher value products and the premiumisation trend in ultrathin condoms (0.02mm & 0.01mm) continues. Continued & improved utilisation rates at its automotive interior lining plants helped power the growth of its industrial segment. In the half-year earnings announced on 4 November 2016, gross profit margins improved from 25.7% to 29.2%, while operating profits improved by 40%. The company reported improved forecasts for the full year with operating income expected to increase about 14%, and net profit after tax about 28% compared to the previous year.

Business Segment Report
Public Markets - Investing in Hidden Champions

Greater China and Taiwan
Monitored by Joyce Pang

- **"Tell me where I'm going to die, so I won't go there" – Redux of 2011 accounting fraud wave?:** Red alerts in governance and accounting risks include: Sharp rise in controlling owners pledging shares for personal loans, such as LeEco's Jia Yueting who pledged 84% of his shares as collateral for credit lines; earnings management in increasing non-operating income to hit minimum return on equity hurdle to get regulator's approval to raise capital in secondary equity offerings and debt placements; increases in off-balance sheet contingent liabilities and non-core balance sheet items other receivables, loan guarantees.

- **Unlikely oasis of FX stability in Taiwan Dollar vs RMB devaluation woes amidst stormy capital markets:** The New Taiwan Dollar currency is arguably the most resilient Asia Pacific currencies, thanks to Perng Fai-Nan (彭淮南), one of the world's top-tier central bankers and the only central banker ranked 'A' by New York-based Global Finance report for 13 years. Since Perng took over as central banker in 1998 during the Asian Financial Crisis, he has earned over $100 billion in revenue surplus profits from his investments in the forex exchange reserves of $426 billion.

- **"Skate to where the puck is going to be" - Underappreciated "Rise of the ODM" in Taiwan Hidden Champions:** As hockey legend Wayne Gretzsky would say, skate to where the puck is going to be, not where it has been. Profits and valuation premium in the value chain are possibly skating to manufacturers with R&D and design capabilities to handle high-mix mass-customised batch orders as product lifecycle shortens and speed-to-market is crucial and there will only be a selected group of Original Design Manufacturers (ODMs) who have accumulated the intangible know-how, with the capability and capacity to handle these orders in multiple applications. This is akin to the tech space with the profits shifting to manufacturers and there are a few manufacturers – Nvidia, TSMC, Intel - who have the capability and capacity to build the chips that are in every mobile device today and in everything tomorrow.

Japan, Taiwan, Specialty Retailers and Community Platforms Sector
Monitored by Sim Zhipeng, Richard

- **Amazon-proof innovative specialty retailers:** One of the best investment deals that Warren Buffett considered he has made is in the specialty furniture retailer Nebraska Furniture Mart founded by Mrs B. Buffett's mental model beyond the numbers was to observe that the owner-operator takes care of his or her customers in a deep way and keeps delivering exceptional value to them, like Mrs B. Applying the Mrs B acid test, we monitor a list of Amazon-proof innovative specialty retailers, including the founder of an outdoor goods retailer who spends 60 nights a year sleeping under canvas at various campsites to observe the products under action, gathering feedback and continuously improve upon the product offering to their customers, as well as Taiwan's Eslite Spectrum and Poya, Australia's Nick Scali, discount retailers Don Quijote ("The Aldi of Japan") and Seria, Nitori ("The Ikea of Japan"), Workman (The Uniqlo for Blue-Collar Workers), ABC-Mart, and Ryohin Keikaku (MUJI).

- **Update on the "Retail Wonderland in Home Improvement":** Second-generation maverick pioneered the concept of goods request memo for customers to suggest items for the retailer to stock, and he would study their requests diligently and constantly seek ideas to improve their store front. Loyal customers remain enchanted as they stroll through a carefully curated collection of over 220,000 SKU items displayed meticulously in the aesthetically pleasing store, driving its asset turnover to be substantially higher than its peers by 40-50%. In the latest full year earnings announced on 2 August 2016, gross margins improved from 29.3% to 31.4% and the operating leverage drove operating profits improvement by 92%. This world-class retailer generates ROE of 20% and still trades at an attractive Price-to-Sales of 0.84x.

- **India retail star:** We are assessing the portfolio inclusion of an Indian specialty retailer who is profitable when giants are not with its network of wholly-owned stores in dense residential complexes, as opposed to franchised expansion, has smart pricing and supply chain management.

Financial Report

Statement by Directors

On behalf of the Board of Directors, we, Chee Kuan Tat, Ken and Clive Tan Che Koon, being two of the directors of **8I Holdings Limited**, do hereby confirm that, to the best of our knowledge, nothing has come to the attention of the Board of Directors of the Company which may render the accompany condensed interim financial statements for the half year ended 30 September 2016 to be false or misleading.

On behalf of the Board of Directors,

Mr Chee Kuan Tat, Ken Director	Mr Clive Tan Che Koon Director

Singapore,
30 November 2016

pwc

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION TO THE SHAREHOLDERS OF 8I HOLDINGS LIMITED

Introduction

We have reviewed the accompanying condensed interim consolidated statement of financial position of 8I Holdings Limited ("the Company") and its subsidiaries ("the Group") as of 30 September 2016 and the related condensed interim consolidated statements of comprehensive income, changes in equity and cash flows for the 6-month period then ended. Management is responsible for the preparation and presentation of this condensed interim consolidated financial information in accordance with Financial Reporting Standard 34 Interim Financial. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

We conducted our review in accordance with Singapore Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Singapore Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim consolidated financial information is not prepared, in all material respects, in accordance with Financial Reporting Standard 34 Interim Financial Reporting.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Singapore, 30 November 2016

PricewaterhouseCoopers LLP, 8 Cross Street #17-00, PWC Building, Singapore 048424
T: (65) 6236 3388, F: (65) 6236 3300, www.pwc.com/sg GST No.: M90362193L Reg. No.: T09LL0001D

Condensed Interim Consolidated Statement of Comprehensive Income

Interim Financial Report for the financial period ended 30 September 2016

	Notes	Half year ended 30 Sep 2016 S$	Half year ended 30 Sep 2015 S$ (Restated)
Revenue and investment income	4	**20,994,670**	12,199,303
Other gains	5	**1,221,424**	9,641,557
Other income	5	**201,587**	339,092
Expenses			
Administrative expenses		**(3,681,995)**	(1,934,141)
Other operating expenses		**(2,905,642)**	(2,266,840)
Finance costs		**(16,567)**	(30,505)
Share of results of associated companies		**638,578**	(526,904)
Profit before tax		**16,452,055**	17,421,562
Income tax expense		**(564,902)**	(1,682,425)
Profit for the period		**15,887,153**	15,739,137
Other comprehensive expense:			
Items that may be reclassified subsequently to profit or loss			
Changes in the fair value of available-for-sale financial assets		**(2,656,135)**	(106,660)
Currency translation differences arising from consolidation		**(8,814)**	(29,054)
Other comprehensive expense for the period, net of tax		**(2,664,949)**	(135,714)
Total comprehensive income for the period		**13,222,204**	15,603,423
Profit attributable to:			
Owners of the Company		**15,712,075**	15,445,930
Non-controlling interest		**175,078**	293,207
Profit for the period		**15,887,153**	15,739,137
Total comprehensive income attributable to:			
Owners of the Company		**13,047,126**	15,310,216
Non-controlling interest		**175,078**	293,207
Total comprehensive income for the period		**13,222,204**	15,603,423
Earnings per share (cents per share)			
Basic	6	**4.39**	4.32
Diluted	6	**4.39**	4.32

See Note 3.3 for details regarding the restatement as a result of correction of prior period adjustments.

The above condensed interim consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Condensed Interim Consolidated Statement of Financial Position

As at 30 September 2016

	Notes	30 Sep 2016 S$	31 Mar 2016 S$ (Restated)
ASSETS			
Current assets			
Cash and cash equivalents		**16,171,266**	18,737,470
Trade and other receivables	7	**13,610,948**	3,309,208
Held-for-trading financial assets		**24,436,665**	19,555,765
		54,218,879	41,602,443
Non-current assets			
Plant and equipment		**957,554**	632,579
Intangible assets	8	**3,959,119**	1,901,072
Investment in associated companies	9	**1,467,069**	1,885,151
Available-for-sale financial assets		**12,737,984**	13,713,260
Other receivables	7	**148,667**	148,667
		19,270,393	18,280,729
Total assets		**73,489,272**	59,883,172
LIABILITIES			
Current liabilities			
Trade and other payables		**1,983,981**	1,820,858
Finance lease liabilities		**95,488**	59,840
Current income tax liabilities		**1,315,996**	1,457,699
Unearned revenue	10	**3,456,955**	3,156,559
		6,852,420	6,494,956
Non-current liabilities			
Finance lease liabilities		**70,037**	73,248
Unearned revenue	10	**745,831**	880,791
Deferred income tax liabilities		**11,344**	11,344
		827,212	965,383
Total liabilities		**7,679,632**	7,460,339
NET ASSETS		**65,809,640**	52,422,833
EQUITY			
Equity attributable to owners of the Company			
Share capital		**32,671,995**	30,736,966
Other reserves		**1,128,122**	3,793,071
Retained earnings		**30,694,777**	16,779,280
		64,494,894	51,309,317
Non-controlling interests		**1,314,746**	1,113,516
Total equity		**65,809,640**	52,422,833

See Note 3.3 for details regarding the restatement as a result of correction of prior period adjustments.

The above condensed interim consolidated statement of financial position should be read in conjunction with the accompanying notes.

Condensed Interim Consolidated Statement of Changes in Equity

Interim Financial Report for the financial period ended 30 September 2016

Half-year FY2017

Group

	Note	Share capital	Fair value reserve	Currency translation reserves	Retained earnings	Equity attributable to owners of the Company, total	Non-controlling interests	Total Equity
		← Attributable to equity holders of the Company →						
		S$	S$	S$	S$	S$	S$	S$
Opening balance as at 1 Apr 2016		30,736,966	3,802,165	(9,094)	16,779,280	51,309,317	1,113,516	52,422,833
Profit for the period		-	-	-	15,712,075	15,712,075	175,078	15,887,153
Other comprehensive expense for the period		-	(2,656,135)	(8,814)	-	(2,664,949)	-	(2,664,949)
Total comprehensive (expense)/income for the period		-	(2,656,135)	(8,814)	15,712,075	13,047,126	175,078	13,222,204
Contributions by and distributions to owners								
Shares buy back		(104,971)	-	-	-	(104,971)	-	(104,971)
Dividends on ordinary shares	14	-	-	-	(1,796,578)	(1,796,578)	(98,000)	(1,894,578)
Total contributions by and distributions to owners		(104,971)	-	-	(1,796,578)	(1,901,549)	(98,000)	(1,999,549)
Changes in ownership interests in subsidiaries								
Acquisition of subsidiaries		-	-	-	-	-	138,124	138,124
Acquisition of a subsidiary by way of share swap	1	2,040,000	-	-	-	2,040,000	(13,972)	2,026,028
Total changes in ownership interests in subsidiaries		2,040,000	-	-	-	2,040,000	124,152	2,164,152
Total transactions with owners with their capacity as owners		1,935,029	-	-	(1,796,578)	138,451	26,152	164,603
Closing balance as at 30 Sep 2016		32,671,995	1,146,030	(17,908)	30,694,777	64,494,894	1,314,746	65,809,640

The above condensed interim consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Condensed Interim Consolidated Statement of Changes in Equity

Interim Financial Report for the financial period ended 30 September 2016

Half-year FY2016

Group

	Attributable to equity holders of the Company						
	Share capital	Fair value reserve	Currency translation reserves	Retained earnings	Equity attributable to owners of the Company, total	Non-controlling interests	Total Equity
	S$	S$	S$	S$	S$	S$	S$
Opening balance as at 1 Apr 2015	30,983,691	55,983	-	4,791,691	35,831,365	678,744	36,510,109
Profit for the period	-	-	-	15,445,930	15,445,930	293,207	15,739,137
Other comprehensive expense for the period	-	(106,660)	(29,054)	-	(135,714)	-	(135,714)
Total comprehensive (expense)/income for the period	-	(106,660)	(29,054)	15,445,930	15,310,216	293,207	15,603,423
Contributions by and distributions to owners							
Dividends on ordinary shares	-	-	-	(3,571,442)	(3,571,442)	-	(3,571,442)
Total transactions with owners with their capacity as owners	-	-	-	(3,571,442)	(3,571,442)	-	(3,571,442)
Closing balance as at 30 Sep 2015	30,983,691	(50,677)	(29,054)	16,666,179	47,570,139	971,951	48,542,090

The above condensed interim consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Condensed Interim Consolidated Statement of Cash Flow

Interim Financial Report for the financial period ended 30 September 2016

	Notes	Half year ended 30 Sep 2016 S$	Half year ended 30 Sep 2015 S$ (Restated)
Cash flows from operating activities			
Profit before tax		**16,452,055**	17,421,562
Adjustments for:			
- Gain on disposal of an associated company		**(1,199,836)**	(9,442,476)
- Gain on disposal of a subsidiary		**(10,370,350)**	-
- Gain on initial recognition at its fair value from former associated company to available-for-sale		**(1,160,825)**	(9,156,519)
- Net fair value (gain)/loss on financial assets held at fair value through profit or loss		**(2,759,865)**	1,369,316
- Net (gain)/loss on disposal of financial assets held at fair value through profit or loss		**(1,250,374)**	998,530
- Gain from bargain purchase		**-**	(485,038)
- Interest income		**(58,204)**	(316,029)
- Depreciation of plant and equipment		**136,509**	81,389
- Loss on disposal of plant and equipment		**8,952**	-
- Finance costs		**16,567**	30,505
- Share of results of associated companies		**(638,578)**	526,904
- Unrealised exchange gain		**(11,005)**	(21,997)
		(834,954)	1,006,147
Change in working capital:			
- Trade and other receivables		**(687,825)**	(2,514,938)
- Held-for-trading financial assets		**(2,421,053)**	2,332,072
- Unearned revenue		**(291,014)**	1,101,628
- Trade and other payables		**(85,752)**	(122,300)
Cash generated from operations		**(4,320,598)**	1,802,609
Interest received		**58,204**	26,341
Interest paid		**(16,567)**	(30,505)
Income tax paid		**(748,176)**	(423,251)
Net cash (used in)/generated from operating activities		**(5,027,137)**	1,375,194
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired		**1,119,425**	(1,970,416)
Acquisition of subsidiary by shares swap, net of cash acquired	a	**414,733**	-
Acquisition of an associated company		**(1,287,440)**	-
Incorporation of an associated company		**-**	(18,000)
Additional investment in an associated company		**(42,000)**	-
Proceeds from disposal of plant and equipment		**3,294**	-
Proceeds from sale of subsidiary	b	**7,581,289**	-
Proceeds from sale of shares in an associated company		**3,085,028**	10,000,000
Loans to an associated company		**(6,000,000)**	(3,553,750)
Additions to plant and equipment		**(377,811)**	(78,817)
Proceeds from disposal of available-for-sale financial assets		**-**	32,577
Net cash generated from investing activities		**4,496,518**	4,411,594

Condensed Interim Consolidated Statement of Cash Flow

Interim Financial Report for the financial period ended 30 September 2016

	Notes	Half year ended 30 Sep 2016 S$	Half year ended 30 Sep 2015 S$ (Restated)
Cash flows from financing activities			
Dividend paid to equity holders of the Company		**(1,796,578)**	(3,571,442)
Dividend paid to non-controlling interest		**(98,000)**	-
Shares buy back		**(104,971)**	-
Repayment of finance lease liabilities		**(36,036)**	-
Net cash used in financing activities		**(2,035,585)**	(3,571,442)
Net (decrease)/increase in cash and cash equivalents		**(2,566,204)**	2,215,346
Cash and cash equivalents at beginning of the period		**18,737,470**	21,656,807
Cash and cash equivalents at end of the period		**16,171,266**	23,872,153

Significant non-cash transactions:

a) Consideration paid on acquisition of subsidiary, Financial Joy Institute Pte. Ltd. is by way of share swap for value of S$2,040,000, no actual cash paid for this transaction.

b) The balance proceeds of S$3 million from sale of a subsidiary would be collectible in 6-month time after 19 August 2016 (date of completion) in accordance to the sale and purchase agreement.

The above condensed interim consolidated statement of cash flow should be read in conjunction with the accompanying notes.

1. Corporate information

8I Holdings Limited (Registration No. 201414213R) (the "Company") is listed on the Australian Securities Exchange (ASX) and incorporated and domiciled in Singapore. The address of its registered office and principal place of business is Goldbell Towers, 47 Scotts Road, #03-03/04, Singapore 228233.

The principal activities of the Company are investment holding and management consultancy services. The principal activities of the subsidiaries are as follows:

Name of subsidiaries	Country of incorporation /operation	Principal activities	Effective interest held	
			30 Sep 2016	31 Mar 2016
Held by the Company:				
8 Investment Pte. Ltd.	Singapore	Investment dealings and management consultancy service	**100%**	100%
8 Capital Pte. Ltd.	Singapore	Investment trading	**100%**	100%
8 Business Pte. Ltd.	Singapore	Private business investment	**100%**	100%
8I Education (S) Pte. Ltd.	Singapore	Seminars and programs organiser	**100%**	100%
8IH Global Limited	Mauritius	Investment trading	**100%**	100%
8I Media Pte. Ltd.	Singapore	Seminars and programs organiser	**-**	100%
8 Property Pte. Ltd.	Singapore	Dormant	**-**	100%
8 Property PLS Pte. Ltd.	Singapore	Dormant	**-**	100%
Held through 8 Investment Pte. Ltd.:				
Vue at Red Hill Pte. Ltd.	Singapore	Investment holding	**100%**	100%
Oxford Views Pte. Ltd.	Singapore	Dormant	**100%**	100%
Fusion 462 Pte. Ltd.	Singapore	Dormant	**100%**	100%
Held through Oxford Views Pte. Ltd.:				
Oxford Views Pty Ltd	Australia	Property investment	**-**	100%
Held through 8 Business Pte. Ltd.:				
Hemus Pacific Private Limited	Singapore	Events organiser	**51%**	51%
Held through 8I Education (S) Pte. Ltd.:				
8I Education (M) Sdn Bhd	Malaysia	Seminars and programs organiser	**100%**	100%
8I Media Pte. Ltd.	Singapore	Seminars and programs organiser	**100%**	-
8IH China Pte. Ltd.	Singapore	Business and management consultancy services	**65%**	65%
Financial Joy Institute Pte. Ltd.	Singapore	Seminars and programs organiser	**51%**	-
Held through 8IH China Pte. Ltd.:				
8IH China (Shanghai) Co. Ltd 信益安（上海）实业有限公司	People's Republic of China	Business and management consultancy services	**65%**	65%
Held through 8IH Global Limited:				
Hidden Champions Fund	Mauritius	Investment trading	**100%**	-
8 MAD Group Sdn Bhd	Malaysia	Investment holdings	**51%**	-
Held through 8 MAD Group Sdn Bhd:				
MAD Integrated Sdn Bhd	Malaysia	Advertising and event management	**51%**	-
MAD Training Sdn Bhd	Malaysia	Advertising, public relations and publicity programmes	**51%**	-

1. Corporate information (continued)

Acquisition of Financial Joy Institute Pte. Ltd.

On 29 June 2016, the Group acquired 51% equity interest in Financial Joy Institute Pte. Ltd. ("FJI") by way of share swap for a consideration of S$2,040,000 (2,551,939 shares issued at price S$0.7993). FJI provides financial and investment education through its main brand, Value Investing College ("VIC") in Singapore, Malaysia, Taiwan, Thailand, Myanmar, India and Vietnam and South Africa.

This acquisition of FJI will provide the Company's Education division access and growth to regional markets with additional trainers and course offerings, as well as additional events and programs.

Details of the purchase consideration, the net liabilities acquired and goodwill are as follows:

	S$
Consideration:	
Share swap, representing the total consideration transferred	**2,040,000**
Fair value of identifiable assets acquired and liabilities assumed:	
Plant and equipment	**19,434**
Trade and other receivables	**6,399**
Cash and cash equivalents	**414,733**
Total assets	**440,566**
Trade and other payables	**(11,840)**
Tax liabilities	**(790)**
Unearned revenue	**(456,450)**
Total liabilities	**(469,080)**
Total identifiable net liabilities	**(28,514)**
Share of total identifiable net liabilities	**(14,542)**
Goodwill arising from acquisition	**2,054,542**

Goodwill arising from acquisition

The goodwill of S$2,054,542 is attributable to potential growth to regional markets with additional trainers and course offerings as well as additional events and programs. It has been allocated to Education segment. None of the goodwill recognised is expected to be deductible for income tax purposes.

Impact of the acquisition on profit and loss

From the acquisition date, the subsidiary has contributed S$895,042 of revenue and S$325,577 to the Group's profit after tax for the financial period.

1. Corporate information (continued)

Acquisition of Hidden Champions Fund

In March 2016, the Company acquired participating rights of the Hidden Champions Fund ("HCF"), for S$1,349,171 and recognised the investment as held-for-trading financial assets. This mainly comprised cash and investment in listed securities held by HCF.

On 30 September 2016, following legal clearance obtained from relevant approval authority, the Company has through its subsidiary, 8IH Global Limited, acquired 100% of the management shares of HCF at par value of US$100 (equivalent with S$137) from Emerging India Fund Management Ltd. Immediately thereafter, HCF became a wholly-owned subsidiary of the Group. The acquisition of HCF allowed the Group to gradually restructure the manner in which the Group's listed securities are held. Subsequent to the acquisition, HCF entered into a new investment management agreement with IIFL Asset Management (Mauritius) Ltd.

The financial position of assets and liabilities of HCF as at 30 September 2016 were as follows:

	S$
Fair value of identifiable assets acquired and liabilities assumed:	
Cash and cash equivalents	**1,164,741**
Trade and other receivables	**587,796**
Held-for-trading financial assets	**13,233,110**
Total assets	**14,985,647**
Trade and other payables	**(156,968)**
Tax payable	**(45,175)**
Total liabilities	**(202,143)**
Total identifiable net assets at fair value	**14,783,504**

2. Basis of preparation and changes in accounting policies

The condensed consolidated interim financial information for the half year ended 30 September 2016 has been prepared in accordance with FRS 34, Interim Financial Reporting.

The condensed consolidated interim financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 March 2016.

The interim financial information has been prepared under the historical cost basis except as disclosed in the accounting policies below.

The financial statements are presented in Singapore Dollars (SGD or S$).

The accounting policies adopted in the preparation of the interim financial information are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 March 2016, except for Note 3.3 regarding correction of prior year adjustments.

Below are the mandatory standards, amendments and interpretations to existing standards that have been published, and are relevant for the Group's accounting periods beginning on or after 1 January 2017 and which the Group has not early adopted:

a. FRS 115 Revenue from contracts with customers (effective for annual periods beginning on or after 1 January 2018).

   The core principle of FRS 115 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:

   - Step 1: Identify the contract(s) with a customer
   - Step 2: Identify the performance obligations in the contract
   - Step 3: Determine the transaction price
   - Step 4: Allocate the transaction price to the performance obligations in the contract
   - Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

   At this stage, the Group is not able to estimate the impact of the new rules on the Group's financial statements. The Group will make more detailed assessment of the impact over the next twelve months.

b. FRS 116 leases (effective for annual periods beginning on or after 1 January 2019).

   FRS 116 will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

   As at 30 September 2016, the Group has non-cancellable operating lease commitments of S$3,250,000. The Group has yet to determine to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

2. Basis of preparation and changes in accounting policies (continued)

c. FRS 109 *Financial instruments* (effective for annual periods beginning on or after 1 January 2018)
The complete version of FRS 109 replaces most of the guidance in FRS 39. FRS 109 retains the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through Other Comprehensive Income (OCI) and fair value through Profit or Loss.

The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investment in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI.

While the Group has yet to undertake a detailed assessment of the classification and measurement of financial assets, debt instruments currently classified as available-for-sale (AFS) financial assets would appear to satisfy the conditions for classification as at fair value through OCI and hence there will be no change to the accounting for these assets.

3. Significant accounting judgement and estimates

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future periods.

3.1 Judgments made in applying accounting policies

Estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

3.2 Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of goodwill
Significant judgements are used to estimate the gross margin, weighted average growth rates and the post-tax discount rates applied in computing the recoverable amounts of the different cash-generating units. In making these estimates, management has relied on past performance and its expectations of market developments. Specific estimates are disclosed in Note 8.

Purchase price allocation
The accounting for the acquisition of a subsidiary involves identifying and determining the fair values to be assigned to the identifiable assets, liabilities and contingent liabilities of the acquired entities. The Group considered the contractual arrangements with the vendors, contractual agreements and other facts and assumptions. The fair values of contingent considerations, property, plant and equipment, intangible assets are determined by reference to market prices or present value of expected net cash flows from the assets. Any changes in the assumptions used and estimates made in determining the fair values including the expected net cash flows will impact the carrying amount of these assets.

3. Significant accounting judgement and estimates (continued)

3.2 Key sources of estimation uncertainty (continued)

Fair value of unquoted available-for-sale financial assets
The fair values of unquoted available-for-sale financial assets are determined using valuation techniques including the discounted cash flow model. The inputs to these models are derived from observable market data where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The assumptions applied in determination of the valuation of these unquoted available-for-sale financial assets and a sensitivity analysis are described in more detail in Note 12.

The carrying amount of the unquoted available-for-sale financial assets as at 30 September 2016 is S$1,692,140 (31 March 2016: S$13,879).

3.3 Correction of prior period adjustments in accounting for acquisition of investment in an associated company

On 30 June 2015, the Company's subsidiary, 8 Investment Pte. Ltd., acquired 100% of the issued share capital of Fusion 462 Pte. Ltd. ("Fusion 462"), Vue at Red Hill Pte. Ltd. ("Red Hill") and Oxford Views Pte. Ltd. ("Oxford Views"), together with their respective wholly-owned subsidiaries, Fusion 462 Pty Ltd ("Fusion 462 Aus"), Vue at Red Hill Pty Ltd ("Red Hill Aus") and Oxford Views Pty Ltd ("Oxford Views Aus") at an aggregate consideration of A$2,329,207. Fusion 462, Fusion 462 Aus, Red Hill, Red Hill Aus, Oxford Views and Oxford Views Aus became wholly-owned subsidiaries of the Company immediately thereafter.

On 2 July 2015, Fusion 462 and Red Hill sold their respective entire interest in Fusion 462 Aus and Red Hill Aus to Velocity Property Group Limited ("Velocity"), a boutique property developer that develops multi-unit apartment and mixed commercial developments in Queensland, Australia, in exchange for 49.9% issued ordinary shares in Velocity. The acquisition of Fusion 462, Red Hill and Oxford Views gave rise to a goodwill of S$1,237,679 and the subsequent share swaps between Fusion 462 Aus, Red Hill Aus and Velocity gave rise to a gain on sale of subsidiaries' shares of S$1,674,213 in the Group prior year's financial statements.

The management of the Company, while preparing the financial statements of the Group for the period ended 30 September 2016, re-evaluated the transactions above that were accounted for as two separate transactions in the prior period. In consultation with the present auditors, management concluded that these two transactions should be considered as one single merger and acquisition transaction, as they are negotiated and entered into in contemplation of each other.

As a result, the goodwill arising from the transaction should be a negative goodwill of S$436,535 instead of a positive goodwill of S$1,237,679 as reflected in the prior year's financial statements.

3. Significant accounting judgement and estimates (continued)

3.3 Correction of prior period adjustments in accounting for acquisition of investment in an associated company (continued)

Consolidated statement of comprehensive income (extract)	Half-year 2016 (comparatives) S$	Increase S$	Half-year 2016 (restated comparatives) S$
Gain from bargain purchase	48,503	436,535	485,038

Consolidated statement of comprehensive income (extract)	Full-year 2016 S$	(Decrease)/ Increase S$	Full-year 2016 (restated) S$
Gain from sale of subsidiaries' shares	1,674,213	(1,674,213)	-
Gain from bargain purchase	48,503	436,535	485,038

The gain on sale of subsidiaries' shares amounting to S$1,674,213 was recorded in the 6-months period ended 31 March 2016. Accordingly, no adjustment is made to the consolidated statement of comprehensive income for the period ended 30 September 2015. Instead, the adjustment will be made to the comparative for the consolidated statement of comprehensive income for the twelve months period ending 31 March 2017.

Balance sheet extract	31 Mar 2016 comparatives S$	Decrease S$	31 Mar 2016 (restated comparatives) S$
Intangible assets (goodwill)	3,138,751	(1,237,679)	1,901,072

4. Revenue and investment income

	Half year ended 30 Sep 2016 S$	Half year ended 30 Sep 2015 S$
Fair value gain/(loss) on held-for-trading investment securities	**2,759,865**	(1,369,316)
Gain/(Loss) on sale of held-for-trading investment securities	**1,250,374**	(998,530)
Dividend income	**130,498**	236,173
Gain from sale of a subsidiary's shares	**10,370,350**	
Gain from sale of an associated company's shares	**1,199,836**	9,442,476
Event site rental income	**1,177,469**	1,970,349
Program sales	**4,082,987**	2,705,292
Property rental	**23,291**	58,936
Property development income	**-**	153,923
	20,994,670	12,199,303

5. Other gains and other income

	Half year ended 30 Sep 2016 S$	Half year ended 30 Sep 2015 S$ (Restated)
Other gains		
Gain on initial recognition at its fair value from former associated company to available-for-sale	**1,160,825**	9,156,519
Gain from bargain purchase	**-**	485,038
Gain on foreign exchange - net	**60,599**	-
	1,221,424	9,641,557
Other income		
Interest income	**58,204**	316,029
Others	**143,383**	23,063
	201,587	339,092

6. Earnings per share

The basic earnings per share is calculated by dividing the profit for the period attributable to owners of the Company by the weighted average number of ordinary shares for basic earnings per share computation. The following table reflects the profit and share data used in the computation of basic earnings per share for the period ended 30 September:

	Half year ended 30 Sep 2016 S$	Half year ended 30 Sep 2015 S$ (Restated)
Profit, net of tax, attributable to owners of the Company used in the computation of basic earnings per share	**15,712,075**	15,445,930
	No. of shares	No. of shares
Weighted average number of ordinary shares for basic earnings per share computation	**358,130,439**	357,144,200

The Company does not have other instruments which may have effects to dilute ordinary shares.

7. Trade and other receivables

	30 Sep 2016 S$	31 Mar 2016 S$
Current		
Trade receivables	**1,294,506**	840,076
Other receivables:		
- non-related parties (Note a)	**9,617,137**	819,600
- an associated company	**-**	215,540
- others	**1,640,224**	544,493
Deposits	**727,000**	714,522
Prepayments	**332,081**	174,977
	13,610,948	3,309,208
Non-current		
Other receivables (Note b)	**148,667**	148,667
	13,759,615	3,457,875

(a) The other receivables to non-related parties comprised of:
- S$3,000,000 relates to Oxford Views Pty Ltd disposal proceeds receivables which would be collectible within 6 months after date of completion of the transaction.
- S$6,000,000 advances granted to Velocity Property Group Limited ("Velocity") (previously an associated company) is secured by Velocity's assets, interest bearing at 5% per annum and is repayable 10 years from commencement date or by notice from lender within 30 days requiring payment in full.

(b) Non-current other receivables fair value approximates carrying amount.

8. Intangible assets

	30 Sep 2016 S$	31 Mar 2016 S$ (Restated)
Goodwill on acquisition		
At beginning of period	**1,901,072**	1,901,072
Addition from acquisition of subsidiaries	**2,058,047**	-
At end of period	**3,959,119**	1,901,072

Impairment testing of goodwill

Goodwill acquired through business combinations have been allocated to the following smallest cash-generating units (CGU):

	30 Sep 2016 S$	31 Mar 2016 S$ (Restated)
Event	**1,904,577**	1,901,072
Education	**2,054,542**	-
	3,959,119	1,901,072

8. Intangible assets (continued)

The recoverable amount of goodwill is determined based on value in use calculations undertaken at the cash generating unit (CGU) level either annually, or when there is an indicator of potential impairment in the CGU. The value in use is calculated using a discounted cash flow methodology covering a five-year period with an appropriate terminal value at the end of that period.

Impairment testing at 31 March 2016 and since has concluded that the carrying amounts of goodwill are supported. However, at the half-year end, there is reduced headroom in the value in use calculation for the event CGU, which has recorded goodwill of S$1,904,577. Key assumptions included in the value in use model for the event CGU include average revenue growth rate of 0-3%, terminal growth rate of 0.5% and post-tax weighted average cost of capital (WACC) of 11%. All other things being equal, a reasonably possible change in any of these key assumptions could cause the carrying value of the event CGU to be impaired.

In addition, the goodwill of S$2,054,542 (under education CGU) was associated with acquisition of Financial Joy Institute Pte. Ltd. on 29 June 2016 as mentioned in Note 1. As this is a recent acquisition, the annual impairment assessment will be performed separately for the financial year ending 31 March 2017 (approximately 9 months after acquisition).

9. Investment in associated companies

The Group's investment in associated companies are summarised below:

	30 Sep 2016 S$	31 Mar 2016 S$
Velocity Property Group Limited (Note a)	**-**	1,884,630
Singapore Fuller International Holding Group Pte. Ltd.	**22,330**	521
CT Hardware Sdn Bhd (Note b)	**1,444,739**	-
	1,467,069	1,885,151

Name of associated companies	Country of incorporation	Principal activities	Proportion (%) of ownership interest 30 Sep 2016	Proportion (%) of ownership interest 31 Mar 2016
Held through subsidiaries:				
Singapore Fuller International Holding Group Pte. Ltd.	Singapore	Investment trading	**29.25%**	33.33%
CT Hardware Sdn Bhd	Malaysia	Trading of power tools, machine and equipment	**49.99%**	-
Velocity Property Group Limited *(formerly known as Velocity Holdings Pty Ltd)*	Singapore	Investment dealings and management consultancy service	-	49.90%

9. Investment in associated companies (continued)

Note a

On 28 September 2016, the Group's subsidiaries, Fusion 462 Pte. Ltd. and Vue at Red Hill Pte. Ltd. partially disposed 78.6% of its holding in Velocity Property Group Limited ("Velocity") for a consideration of S$3,085,028. The Group recognised a gain on disposal of S$1,199,836 and the Group's stake in Velocity reduced from 49.9% to 10.7%. Accordingly, Velocity ceased to be an associated company of the Group. The remaining interest had been reclassified to available-for-sale financial assets ("AFS") together with a gain on initial recognition at its fair value at date of reclassification from associated company (refer to Note 12).

	30 Sep 2016	31 Mar 2016
	S$	S$
As at 1 April/date of acquisition	**1,884,630**	2,343,397
Share of results for the period/year	**517,998**	(458,767)
Partial disposal of shares	**(1,885,192)**	-
Reclassification into available-for-sale	**(517,436)**	-
	-	1,884,630

Note b

On 6 May 2016, the Group acquired 49.99% interest of CT Hardware Sdn Bhd for a cash consideration of S$1,287,440. The carrying amount of investment in associated company has changed as follows in the financial period up to 30 September 2016:

	30 Sep 2016	31 Mar 2016
	S$	S$
As at date of acquisition	**1,287,440**	-
Share of profit for the period	**140,771**	-
Foreign exchange difference	**16,528**	-
	1,444,739	-

10. Unearned revenue

	30 Sep 2016	31 Mar 2016
	S$	S$
Unearned revenue – current	**3,456,955**	3,156,559
Unearned revenue – non-current	**745,831**	880,791
	4,202,786	4,037,350

This represents revenue received from customers but not yet recognised to the profit or loss due to service not yet rendered as at reporting date.

11. Contingent liabilities

The Group does not have any significant contingent liability at the end of the financial period.

12. Fair value of assets and liabilities

a) Fair value hierarchy

The Group categorised fair value measurements using a fair value hierarchy that is dependent on the valuation inputs used as follows:

- Level 1 – Quoted prices (unadjusted) in active market for identical assets or liabilities that the Group can access at the measurement date,
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset of liability, either directly or indirectly, and
- Level 3 – Unobservable inputs for the asset of liability.

Fair value measurements that use inputs of different hierarchy levels are categorised in its entirety in the fair value hierarchy as the lowest level input that is significant to the entire measurement.

Financial instruments measured at fair value

The following table shows an analysis of each class of financial instruments measured at fair value at the end of the reporting period:

	Fair value measurements at the end of the reporting period using			
	Quoted prices in active markets for identical instruments (Level 1) S$	Significant observable inputs other than quoted prices (Level 2) S$	Unobservable inputs (Level 3) S$	Total S$
As at 30 Sep 2016				
Assets measured at fair value				
Financial assets:				
Held for trading financial assets				
- Quoted equity securities	**24,436,665**	**-**	**-**	**24,436,665**
Available-for-sale financial assets				
- Quoted equity securities	**11,045,844**	**-**	**-**	**11,045,844**
- Unquoted equity securities	**-**	**-**	**1,692,140**	**1,692,140**
Financial assets as at 30 Sep 2016	**35,482,509**	**-**	**1,692,140**	**37,174,649**
As at 31 Mar 2016				
Assets measured at fair value				
Financial assets:				
Held for trading financial assets				
- Quoted equity securities	19,555,765	-	-	19,555,765
Available-for-sale financial assets				
- Quoted equity securities	13,699,381	-	-	13,699,381
- Unquoted equity securities	-	-	13,879	13,879
Financial assets as at 31 Mar 2016	33,255,146	-	13,879	33,269,025

12. Fair value of assets and liabilities (continued)

The group holds available-for-sale financial assets that are not traded in an active market (level 3). The fair value per share based on information on Velocity's prospectus whereas third party loan has been converted into equity price at S$0.08773 per share. If the price per share had been higher/lower by 5%, the group's available for sale financial assets would have been higher/lower by S$84,000 respectively.

13. Segment information

The Group is organised into business units based on management reporting structure and organisational set-up, in line with the main business divisions driving the growth of the Group. Following management's review of the revised management reporting structure, the number of business segments has been reduced from four to three to better present the management reporting structure and organisation set-up, improve visibility of each segment's performance, and to enhance the business management more effectively.

The changes to the business units are summarised below:

- The Education and Event segment will now comprise only the education business, including the newly acquired Financial Joy Institute Pte. Ltd., and will be renamed to Education segment.

- The Investment segment involved in investment in listed securities will be renamed to Investment in Public Markets segment, which includes the Hidden Champions Fund.

- The private equity, event and property business will be reported under the new Investment in Private Markets segments.

The segments under the new reporting model are as follows:

- **Education**
  Involved in financial education and training providers in Asia, via its flagship courses "Millionaire Investor Program" and "Value Investing College", which focus on educating its students on the principles and techniques of value investing.

- **Investment in Public Markets**
  Involved in investment in listed equities in the Asia-Pacific through a focused strategy of investing in undervalued companies with unique, scalable and resilient business models run by aligned owner-operators to provide the foundation for sustainable long-term growth and to achieve long-term investment returns.

- **Investment in Private Markets**
  Involved in strategic investment in private businesses which have strong and sustainable business models, with long-term growth potential.

Management monitors the operating results of its business units separately for making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects, as explained in the table below, is measured differently from operating profit or loss in the consolidated financial statements. Group income taxes are managed on a group basis and are not allocated to operating segments.

Prior period comparative segment information has been restated.

13. Segment information (continued)

	Education		Investment in Public Markets		Investment in Private Markets		Notes	Consolidated financial statements	
	30 Sep 2016 S$	30 Sep 2015 S$ (Restated)	**30 Sep 2016 S$**	30 Sep 2015 S$ (Restated)	**30 Sep 2016 S$**	30 Sep 2015 S$ (Restated)		**30 Sep 2016 S$**	30 Sep 2015 S$ (Restated)
Revenue									
Total segment revenue	**4,624,763**	3,004,404	**4,890,185**	(2,071,892)	**13,793,043**	12,297,962		**23,307,991**	13,230,474
Inter-segment revenue	**(524,521)**	(298,637)	**(750,000)**	(59,782)	**(1,038,800)**	(672,752)	A	**(2,313,321)**	(1,031,171)
Revenue from External customers*	**4,100,242**	2,705,767	**4,140,185**	(2,131,674)	**12,754,243**	11,625,210		**20,994,670**	12,199,303
Adjusted EBITDA	**991,619**	1,182,681	**3,590,105**	(2,560,061)	**12,023,407**	18,910,836	B	**16,605,131**	17,533,456
	30 Sep 2016 S$	31 Mar 2016 S$ (Restated)	**30 Sep 2016 S$**	31 Mar 2016 S$ (Restated)	**30 Sep 2016 S$**	31 Mar 2016 S$ (Restated)		**30 Sep 2016 S$**	31 Mar 2016 S$
Segment assets	**10,689,860**	8,210,088	**27,200,335**	21,705,251	**35,599,077**	29,967,833		**73,489,272**	59,883,172
Segment assets includes:									
Investment in associated companies	-	-	-	-	1,467,069	1,885,151		1,467,069	1,885,151
Additions/ (Deductions) to:									
- Plant and equipment	335,817	656,651	25,826	25,046	3,922	(41,544)		365,565	640,153
- Intangible assets	2,054,542	-	-	-	3,505	-		2,058,047	-
- Available for sales financial assets	2,598	-	-	(800,321)	(977,875)	13,699,380		(975,277)	12,899,059
Segment liabilities	**(4,949,163)**	(4,795,132)	**(587,033)**	(299,615)	**(2,143,436)**	(2,365,592)	C	**(7,679,632)**	(7,460,339)

* *Revenue from Investment in Public Markets segment mostly pertained to fair value gain/(loss) and dividend income from investment in listed equity securities.*

13. Segment information (continued)

A Inter-segment revenues are eliminated on consolidation.

B Reconciliation of segment adjusted EBITDA to profit before tax is as follows:

	Half year ended 30 Sep 2016 S$	Half year ended 30 Sep 2015 S$ (Restated)
Adjusted EBITDA	**16,605,131**	17,533,456
Depreciation	**(136,509)**	(81,389)
Finance costs	**(16,567)**	(30,505)
Profit before tax	**16,452,055**	17,421,562

C The following items are added to segment liabilities to arrive at total liabilities reported in the consolidated statement of financial position:

	30 Sep 2016 S$	31 Mar 2016 S$
Deferred tax liabilities	**11,344**	11,344
Income tax payable	**1,315,996**	1,457,699
	1,327,340	1,469,043

14. Dividend

	Half year ended 30 Sep 2016 S$	Half year ended 30 Sep 2015 S$
Declared and paid during the half year ended 30 September		
Dividends on ordinary shares:		
- Final exempt (one-tier) dividend for 2016: 0.50 (SGD cent) per share (2015:1.00 (SGD cent))	**1,796,578**	3,571,442

15. Events occurring after the reporting period

There is no significant event arose after the reporting period till the date of this report.

This page has been left blank intentionally.

8I Holdings Limited
(Incorporated in the Republic of Singapore) Company Registration Number: 201414213R ARBN 601 582 129

www.8iholdings.com

Offices

Singapore
Goldbell Towers, 47 Scotts Road, #03-03/04,
Singapore 228233

T : +65 6225 8480
F : +65 6235 0032

Australia
C/- SmallCap Corporate Pty Ltd, Suite 6,
295 Rokeby Road, Subiaco WA, Australia, 6008

T : +61 8 6555 2950
F : +61 8 6166 0261

Malaysia
17 & 19-6 The Boulevard Office, Mid Valley City,
Lingkaran Syed Putra, 59200 Kuala Lumpur, Malaysia

T : +60 3 2201 8089

China
上海市宝山区沪太路2695号尊木汇A13
邮编201900

T : +86 021 6278 7618

This page has been left blank intentionally.

www.8iholdings.com

47 Scotts Road, Goldbell Towers #03-03, Singapore 228233
T: +65 6225 8480 | F: +65 6235 0332