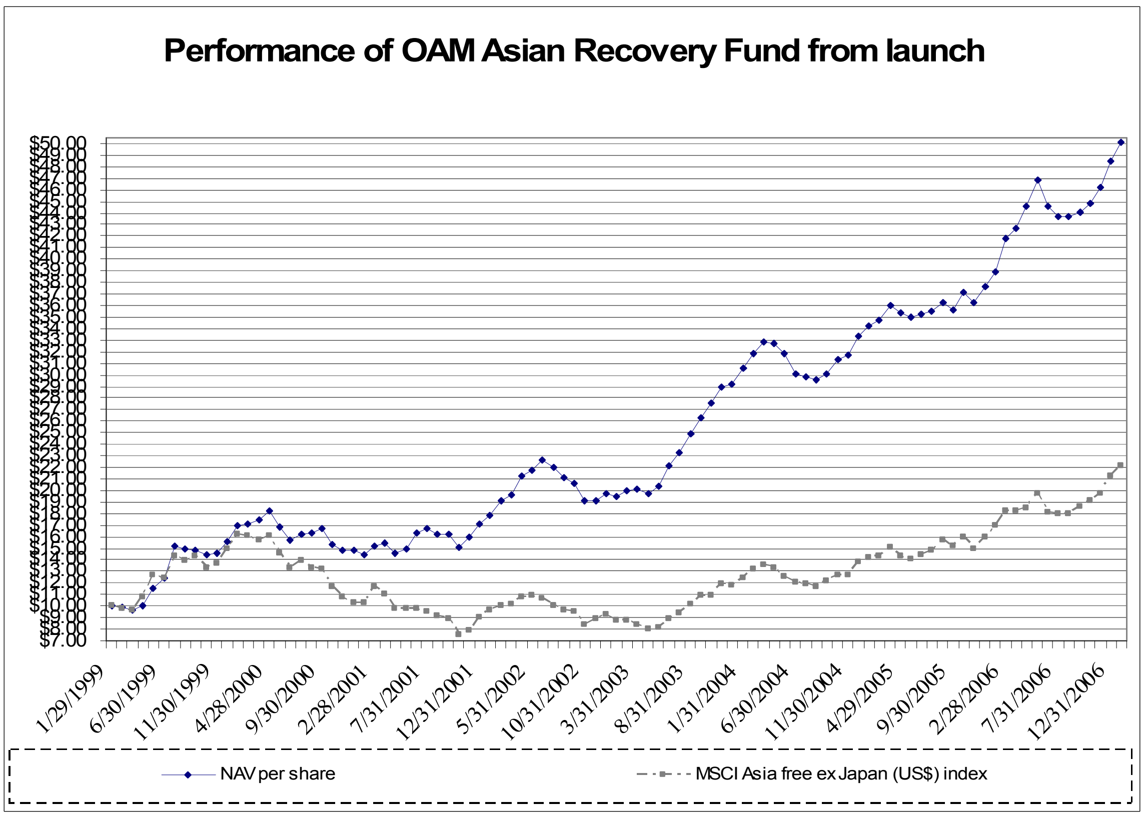
12th January, 2007 **OAM Asian Recovery Fund**

Dear fellow shareholder,

Last year, OAM Asian Recovery Fund's NAV increased by 28.6%. By comparison, the Fund's benchmark, the MSCI Asia free ex Japan Index, increased by 30.1%. Since inception, the Fund's NAV has increased by 400.9% versus 120.9% for the MSCI Asia free ex Japan Index. The Fund's compound annual return over the past eight years has been 22.3% per annum. By comparison, the benchmark index has returned 10.4% per annum. The Fund's net assets ended the year at US$140 million. The Fund's NAV per share ended the year at $50.09, two years ahead of my target set at the Fund's launch of increasing the NAV per share 5 fold within 10 years of launch. In reflecting on these results, nothing gives me greater pleasure than having rewarded our faithful clients who stuck with us by making them pots of money.



During years like last year when the market rises strongly, OAM Asian Recovery Fund is likely to slightly lag the market. However, in weak markets, the NAV per share of our Fund is likely to hold up better. This is another way of saying that our Fund is less risky than the equity markets in which it invests. Indeed, Standard & Poor's Fund Services (www.funds-sp.com) rated OAM Asian Recovery Fund at the lowest end of its risk spectrum based on its NAV performance over the past 7 years. During this period, the biggest peak to trough loss was 20% for the Fund compared with an average maximum loss of 47% for all Asia Pacific ex Japan funds in their universe during the same period. S&P Fund Services also calculated a historic beta for our Fund over the same period of 0.43 versus 0.94 for the average Asia ex Japan offshore equity fund (a lower beta indicates less risk and vice versa). As I tell clients and prospective investors, our job as investment managers is to both maximise returns and control risk. Many managers and clients often forget the second part, particularly after a long period of good times. Bear markets are what separate the men from the boys so to speak!

The five original boutique managers currently manage 64% of the Fund's net assets. One of these no longer takes new money; three only take new money on a restricted basis from existing shareholders (two of them only once a year); and the one manager who still takes money from new clients no longer offers the "A" shares in their flagship fund which carries a lower management fee. These five core managers continue to produce very good risk-adjusted returns. Last year we placed more money with four of these core managers. There is a high level of comfort in having money with these core managers who I have known and dealt with professionally for nearly ten years. Unpleasant surprises are unlikely.

At year end, only 3% of the Fund's portfolio was in cash - and since then, we have found good homes for most of this cash that should yield attractive returns for shareholders. The balance of the Fund's assets are invested in three categories: closed-end funds or holding companies selling at attractive discounts to NAV, new funds investing in smaller capitalisation Asian companies, and special situation funds that invest opportunistically mainly in discounted debt.

Currently, 8.5% of the Fund's assets is invested in six closed-end funds. There is also another closed-end fund which is about to become open-ended and is excluded from this total because it is managed by one of the five core managers. Two of these are quite large holdings. The largest (4% of NAV) is a Singapore-listed investment holding company that invests in listed and unlisted Taiwanese technology companies. It is managed by one of the leading venture capital firms in Taiwan. We bought shares in this company last year and in late 2005 at an average cost per share that is 50% of the current NAV per share. The shares still trade at a 35% discount to NAV. When I visited the manager in Taipei in June last year, I asked what they are planning to do to address the deep discount to NAV. I also suggested that they ought to repurchase shares with their huge cash hoard at the prevailing deep discount to NAV and thereby enhance the NAV per share. I was pleased to notice in their most recent quarterly report that they had indeed started to repurchase shares. The second largest holding in this category (3.5% of NAV) is a Malaysian-listed closed end equity fund. It currently trades at a 21% discount to NAV. This fund is due to have a continuation vote within the next six months. Looking at the fund's share register, I do not fancy their chances of continuation. The largest shareholders include Laxey Partners, City of London Investment Management, Overseas Asset Management, Carrousel Fund and QVT. Open-ending or liquidation of this fund, as seems likely, should be helpful to our Fund's NAV.

About 18 months ago, we invested in two new funds – one managed by a fund manager in Hong Kong that I have known for about ten years, and the other who is based in Singapore and was introduced to me by one of the best boutique fund managers in Asia who runs a very successful Asian smaller companies fund in which we invested less than four years ago. The fund manager who made the introduction manages a relatively small fund that she closed to new money almost immediately after we invested US$500,000. That investment made less than four years ago has quadrupled in value. The bittersweet experience of identifying an excellent manager, and then not being able to put more money to work with that manager, alerted me to the opportunities which abound in the Asian smaller companies sector for experienced and capable fund managers. The problem is that liquidity constrains them to managing a maximum of somewhere in the region of US$50-100 million, above which their investment performance suffers. I was determined after that to build our investments with seasoned managers starting new funds to invest in Asian smaller companies who agreed in advance to cap their fund size. Last year, I added a third new fund which is managed by a seasoned investment manager based in Taipei who was introduced to me by CLSA who I regard as the best brokerage firm in Asia ex Japan. Adding these new managers is not without risk but the returns achieved by these three managers so far have amply justified this risk. These three new smaller company funds plus the one in which we invested less than four years ago currently account for 10% of NAV.

Special situation funds comprise 11% of NAV with an additional 3% of NAV committed but uncalled by one fund. We have investments in four such funds: one invests in Chinese non-performing loans (NPL's), one invests in mezzanine debt in the ASEAN region, one selects Asian equities using a purely quantitative approach, and one invests in a wide range of special situations, whether they be equity or debt. I expect these special situation funds in aggregate to produce a compound annual return of just over 15% per annum over the next 3-5 years with less volatility than either the Fund or its benchmark. This is one of the reasons why the Fund's return has been and should continue to be less volatile than most other Asia ex Japan equity funds. It also helps explain why I think our Fund is likely to lag the benchmark slightly during very strong bull markets like the one we experienced last year in Asia ex Japan.

Within the past year or so, I have had many calls and e-mails from clients asking me what I think of India and asking how much money we have invested in India. In the past couple of months, clients and potential clients have started asking about Vietnam. We have virtually nothing invested in either market. The charts one the next page of the MSCI India Index and the Vietnam Ho Chi Minh Stock Index paint a similar picture. Investors often flock to the party when it has already been in full swing for a long time and just before it starts getting ugly. Today, the BSE Sensex 30 Index of Indian equities commands a P/E of 25 times reported earnings and a dividend yield of 1.15%. In the case of Vietnam, the situation is compounded by there being few listed equities in which to invest – a case of too much demand chasing too little supply. Much of the money

MSCI Emerging Markets India (US$) Index (1993-present)

Vietnam Ho Chi Minh Stock Index (June 2005-present)

invested in Vietnam lately has been invested in closed-end Vietnam country funds, many of which are nothing more than "blind pools", which are all selling at hefty premiums to NAV. I suspect that these Vietnam funds may provide future rich pickings for aficionados of closed-end funds selling at deep discounts to NAV … such as ourselves. When the Vietnam market goes out of favour, these funds are likely to trade at wide discounts to NAV, as has been the case historically with other country funds.

I think Greater China (China, and Hong Kong and Taiwan where a significant proportion of listed companies have large investments in China), has much more interesting markets. The chart below is the MSCI China Index from 1993 to present.

Even though the Fund had a very strong year last year, I think it still has attractive prospects for future returns. On a look-through basis, the average P/E of the Fund's holdings is about 13 times calendar 2006 estimated earnings (which are mostly in the bag) and just over 11 times estimated 2007 earnings. These are attractive numbers for the fastest growing part of the world. I do see a number of worrying signs such as heavily oversubscribed IPO's in Hong Kong and Singapore and newly listed Chinese banks selling at 3-4 times questionable book value, but I am not unduly worried at this stage. These pockets of excessive speculation may cause a short-term setback for Asia ex Japan stock markets and steeper declines for the more speculative recent IPO's, but we are not short-term investors and we have no exposure to these recent hot IPO's.

Desmond Kinch
Chairman