

2024-2025 Investor Letter

Performance Review

In 2024, our portfolio delivered a return of 28.6%, outperforming the S&P 500 by 3.0% and the Hang Seng Index by 10.9%. In 2025, we achieved a return of 41.9%, outperforming the S&P 500 by 24.0% and the Hang Seng Index by 9.4%.

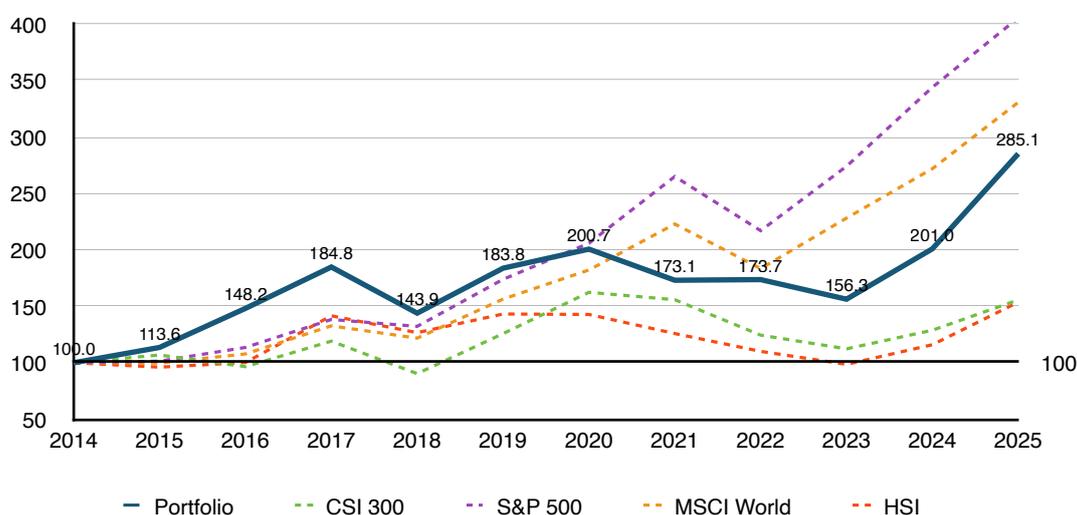
However, it is crucial to recognize that the high returns of these two years were primarily a recovery from the drawdown experienced in 2021–2023. Our performance in the preceding three years was significantly below expectations. The gains in 2024–2025 were, to a large extent, driven by a valuation repair as the Hong Kong market rebounded from extreme pessimism. Such a source of return is clearly unsustainable. Looking ahead, the source of returns we prefer—and rely on—is the long-term growth in the intrinsic value and operating results of the companies we invest in.

Annualised return

	Portfolio	CSI300	S&P500	MSCI World	HSI
2015	13.6%	6.9%	1.4%	(0.3%)	(3.9%)
2016	30.4%	(9.6%)	12.0%	8.2%	4.3%
2017	24.7%	23.4%	21.8%	23.1%	41.3%
2018	(22.1%)	(24.1%)	(4.4%)	(8.2%)	(10.5%)
2019	27.7%	39.2%	31.5%	28.4%	13.0%
2020	9.2%	29.1%	18.4%	16.5%	(0.3%)
2021	(13.7%)	(4.0%)	28.7%	22.4%	(11.8%)
2022	0.3%	(20.1%)	(18.1%)	(17.7%)	(12.6%)
2023	(10.0%)	(9.8%)	26.3%	24.4%	(10.5%)
2024	28.6%	14.7%	25.6%	19.2%	17.7%
2025	41.9%	20.8%	17.9%	21.6%	32.5%
Annualised	10.0%	2.9%	14.7%	11.8%	1.7%

Note: portfolio valued in RMB, index represents total returns (including dividend), calculated on base currencies.

Cumulated net value (beginning 2015 = 100)



Since 2015, our annualized return has recovered to approximately 10%. An initial investment of RMB 100 at the beginning of 2015 would have grown to approximately RMB 285 by the end of 2025. Over the past 11 years, while we have significantly outperformed the CSI 300 and the Hang Seng Index, we still notably lag behind the S&P 500 and the MSCI World Index. This 10% long-term return sits at the lower bound of our 10–15% target range, representing what we consider the minimum acceptable level.

On a positive note, based on the quality and valuation of the companies in our portfolio as of the end of 2025, we are more optimistic about our expected returns for the next 5–10 years compared to the realized returns of the past decade. However, achieving this will depend on the actual operating performance of our portfolio companies and the quality of our judgment. We will continue to track their business progress closely to update our assessment.

The past 11 years have been a continuous learning process for me—especially learning from mistakes. Looking back at 2021–2023, our main lesson was an over-reliance on "well-known good companies" (such as large internet platforms) where our own depth of understanding was insufficient. We lacked the ability to accurately judge the potential impact of shifts in the macroeconomic and industrial environment on these giants.

This realization prompted a strategic shift over the past two years. We turned our focus toward "Hidden Champions" (such as *Tan Mujiang*)—businesses that we can understand relatively well, that possess visible moats, yet are ignored or misjudged by the market. We began significantly adjusting the portfolio starting in late 2024. Concurrently, given that the U.S. economy is at a relative cyclical peak with elevated valuations, we reduced our exposure to the U.S. economy and the US dollar, concentrating our core positions in undervalued, high-quality Chinese businesses. This structural change is evident in the evolution of our top five holdings across the ends of 2023, 2024, and 2025.

Top 5 holdings

	2023		2024		2025	
	Company	Allocation	Company	Allocation	Company	Allocation
1	Alibaba H	22.6%	Alibaba H	13.2%	Tan Mujiang	21.8%
2	Ping An H	21.4%	Ping An H	13.1%	Natural Food IH	13.3%
3	Berkshire B	13.5%	Berkshire B	9.1%	PSBC H	13.0%
4	Tencent H	11.8%	PSBC H	8.3%	Da Ren Tang S	12.2%
5	PSBC H	7.5%	CH Treasures	6.9%	PDD	10.8%
Total		76.8%		50.6%		71.1%

Portfolio Structure

Our current portfolio consists of two main categories of investments.

Category 1: Core Compounders (~65% of Portfolio) These are companies that have established sustainable competitive advantages and moats in their respective fields, providing relatively predictable long-term profitability. Current examples include *Tan Mujiang*, *Darentang*, and *PDD Holdings*. Our goal is to buy these businesses at prices that offer a reasonable implied return with a margin of safety, and to hold them for the long term, profiting from the compounding growth of their intrinsic value.

Category 2: Deep Value / Mean Reversion Assets (~25% of Portfolio) These are companies with relatively average moats or weak profitability, but whose valuations are extremely attractive. We aim to profit from the mean reversion of their valuations—from deeply undervalued levels back to reasonable levels. Current examples include *Natural Food International (Wugu Mofang)*, *Miramar Hotel*, and *China Dongxiang*. Generally, these assets may offer higher returns in the short-to-medium term, but their long-term cumulative returns are expected to be significantly lower than those of our Core Compounders. This is because valuation recovery is a one-time event, while the value of great businesses compounds continuously over time.

Therefore, when evaluating opportunities, we prioritize Category 1. Over time, I intend to gradually increase the weight of Core Compounders while aiming to maintain a cash reserve of at least 5–10% to act quickly when high-certainty opportunities arise.

Regarding our Sell Discipline, we apply different standards to each category:

- For Category 1 (Core Compounders): We typically reduce positions significantly only if:
 1. The company's moat or operating quality suffers structural deterioration;
 2. Valuation becomes significantly higher than the reasonable range, offering insufficient implied return to compensate for risk;
 3. A superior alternative with higher certainty or return potential emerges.
- For Category 2 (Deep Value): We strictly follow valuation discipline and tend to exit gradually once valuation has reverted and the margin of safety narrows.

Investment Cases

Our largest holding, ***Tan Mujiang***, is a classic example of buying a quality business at a low valuation. Founded in 1993 and listed in Hong Kong in 2009, it is the absolute leader in China's premium wooden comb segment. For over 30 years, the company has stayed focused on its core business, cultivating a humble corporate culture of "Labor, Honesty, Happiness." It has patiently built the only nationwide branded franchise network in the industry and maintains a large, stable team of craftsmen (many of whom are people with disabilities).

In this niche market, the company has forged a unique competitive advantage. Through rigorous craftsmanship standards, a lifetime free repair commitment, and its unique attribute as an "emotional gift," Tan Mujiang's combs have evolved for many consumers from practical tools into objects carrying memory and culture. The company has achieved an ROIC of over 40% in the past decade and returned approximately 75% of cumulative profits to shareholders through dividends.

We began investing in 2023 and significantly increased our allocation in 2025. Because it is a small-cap stock listed in Hong Kong and not included in the Stock Connect, it is difficult for mainland investors to access, leaving its valuation chronically low. Our average cost basis corresponds to a market cap of roughly HKD 1.4 billion. Excluding net cash, we paid less than 6x after-tax operating profit, with a dividend yield exceeding 6%, implying a long-term return of over 15%. We hope to hold such "high moat, high ROIC, reasonably undervalued" enterprises for the long haul. A key risk to monitor for a family business like this is the preservation of its culture and efficiency during management succession.

Our second-largest holding, **Natural Food International (Wugu Mofang)**, represents our second category of opportunities. Founded in 2006 and listed in 2018, *Wugu Mofang* initially built its brand through "freshly ground" cereal counters in supermarkets. The pandemic severely impacted this offline model, leading to its first post-listing loss in 2020. Subsequently, management decisively adjusted the channel structure, expanding into shelf-stable products in chains like Sam's Club. This move not only restored profitability but marked a strategic transformation from a labor-intensive counter model to a more standardized, asset-light brand retail model.

By the end of 2024, traditional counter sales had dropped from 76% (in 2019) to 38% of revenue, while profitability returned to 2017 highs. However, the stock price did not reflect this improvement. We started buying in 2024 and continued in early 2025. Our average cost corresponds to a market cap of ~HKD 1.2 billion, which is roughly equal to the company's RMB 1.1 billion in net cash. This effectively meant the company's future earnings were being offered for "free". Our core reason for investing is not its moat, but its extreme undervaluation and margin of safety. Since our purchase, the stock has risen approximately 80% including dividends. We modestly trimmed our position towards the end of 2025, but retain the majority of our shares as the valuation remains low.

It is important to emphasize that such opportunities rely heavily on extreme market pessimism and subsequent valuation repair; they are less replicable and more dependent on market sentiment, hence more opportunistic. For such "average/low moat, extreme low valuation" businesses, our discipline is clear: we will exit gradually as the valuation gap closes and the margin of safety narrows.

Outlook

We are committed to investing with a business owner's mindset, not merely trading ticker symbols. Our long-term goal is to buy 5–10 companies that possess strong economic moats and excellent management, and that we truly understand, at reasonable or undervalued prices—and then own them for the long term.

True quality opportunities are scarce. Combined with the limitations of my own business understanding, this means we find companies that truly meet our standards only on rare occasions. Most of the time, our job is to learn continuously, stay patient, and swing the bat decisively only when a "fat pitch" crosses the plate.

You may notice that by the end of 2025, our top five holdings account for over 70% of the portfolio. This is not because we are aggressive, but precisely because we are conservative. When we find an opportunity like *Tan Mujiang*—with a strong moat, trustworthy management, and attractive valuation—investing heavily is the best way to

reduce risk. At such prices, the probability of permanent loss is far lower than in a mediocre, diversified portfolio.

We must share a key consensus: Short-term stock price volatility is not risk; permanent loss of capital is. As long as our companies maintain solid competitive advantages and healthy cash flows, market fluctuations are merely emotional noise, or even opportunities for us to add to our positions.

Looking back at the last two years, macro challenges in China and geopolitical fog led to extremely pessimistic pricing of Chinese assets. While frustrating, this provided us with a window to "pick up gems," allowing us to build a portfolio with a relatively high margin of safety we have today.

However, we must remain clear-headed: The high returns of 28.6% and 41.9% over the past two years are unsustainable. These gains were largely due to a drastic valuation repair (from extreme undervaluation toward more reasonable levels), not explosive earnings growth. As the valuation pit is filled, we can no longer expect to profit easily from a reversal in sentiment. Future returns will revert to their source—relying on the actual compounded growth in intrinsic value of our portfolio companies.

While the "easy money" phase of buying deep value may be over, the overall valuation of the China/Hong Kong market remains reasonable. We will continue to seek certainty in Core Compounders and safety in Deep Value assets. The short-term market is unpredictable, but as long as the businesses we own continue to create value, the compounding of time will faithfully reflect that value in our net asset value eventually.

Thank you for your continued trust and patience.

P.S. To ensure our interests are fully aligned with yours, we will implement a "0-6-25" fee structure starting in 2026.

This means we will charge zero fixed management fee (0%). We will only earn a 25% performance fee on the portion of the annual return that exceeds a 6% hurdle rate. Notably, my own capital is subject to this exact same fee structure.

Virtually all of my personal capital is invested here; this structure guarantees that I only generate income when we all achieve satisfactory returns.

Examples of performance fee applied

Gross return	Performance fee	After fee return
5%	0%	5%
10%	1%	9%
15%	2.25%	12.75%
20%	3.5%	16.5%
25%	4.75%	20.25%