

December 3, 2010

Dear clients and colleagues,

In the past five weeks I have been travelling in Asia for various investment conferences and company visits. From coastal cities to inland China, from HK to Singapore and Japan, I met a total of 80 companies in diversified industries. The beauty of so many meetings in one go certainly reduces multiple instances of jetlag, but, more importantly, helps to put things into perspective. The scene of hustle and bustle may appear similar in many Asian cities like Shanghai and Tokyo, but the background can be very different. Inflation or deflation?

**Overall sentiment from conferences and visits is optimistic and consistent. Asian growth, supported by robust export and domestic demand, will continue to be a powerful investment theme.**

General feedback is as follows:

- Management of companies in Asia ex-Japan is quite bullish.
  - Confident of achieving double-digit earnings improvement in 2011, mostly driven by top-line growth.
  - Active in new staff recruiting.
  - Aggressive in capacity expansion.
  - Concerned with sharp rise in inflation hurting margins.
  - Expect labor costs to increase 5-10% annually.
- Management of Japanese companies is more neutral, citing recovery on track but many uncertainties ahead.
  - Troubled by strong yen and everlasting deflation.
  - Implementing the global strategy of "Local production, Local sales" to reduce currency risk.
  - Expanding sales overseas for growth. China is the focus.

Considering different management styles in the various regions, I think the above comments should be taken with a grain of salt. I would not overestimate the strength of Chinese companies or underestimate that of the Japanese. Japanese management teams are far more stable, experienced and prudent than their peers in other Asian countries.

Every now and then you may hear talk about China's hard landing or decoupling story. I think neither will happen in the near term. China's urbanization progress is very solid, but its export dependence on the US and Europe is also significant. We expect the Chinese government to keep the Yuan appreciation moving in a very gradual manner.

What are the unique opportunities in Japan despite the problem of aging and shrinking population? I think they can be grouped into the China effect and re-urbanization. China replaced the US as Japan's top export destination in 2009, representing 18.9% of Japan's total exports. Japanese companies with strong technology

This report is provided solely for informational purposes and nothing in this document constitutes an offer or a solicitation of an offer to purchase any security. This report has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient and does not constitute a representation that any investment strategy is suitable or appropriate to a recipient's individual circumstances. Global Alpha Capital Management Ltd. (Global Alpha) in no case directly or implicitly guarantees the future value of securities mentioned in this document. The opinions expressed herein are based on Global Alpha's analysis as at the date of this report, and any opinions, projections or estimates may be changed without notice. Global Alpha, its affiliates, directors, officers and employees may buy, sell or hold a position in securities of a company(ies) mentioned herein. The particulars contained herein were obtained from sources, which Global believes to be reliable but Global Alpha makes no representation or warranty as to the completeness or accuracy of the information contained herein and accepts no responsibility or liability for loss or damage arising from the receipt or use of this document or its contents.

Performance figures are stated in Canadian dollars and are net of trading costs and gross of operating expenses and management fees. Further information about the Global Small Cap Composite is available by contacting the firm. Global Alpha Capital Management Ltd. (Global Alpha) claims compliance with the Global Investment Performance Standards (GIPS<sup>®</sup>) and has prepared and presented this report in compliance with the GIPS. Global Alpha has not been independently verified.

expertise and exposure to China (either through production in China or export) will continue to benefit. The urban population ratio in Japan is lower than in most developed countries; only at 64% vs. over 77% in the US and Canada. Net migration to the Tokyo, Osaka and Nagoya areas is on-going. Higher population density tends to increase economic efficiency, especially in wholesale, retail, finance, insurance, healthcare and services sectors.

**Company visits of our existing holdings are very positive. Here are some updates on Vitasoy, Nabtesco, Goodpack and Disco.**

Vitasoy, [www.vitasoy.com](http://www.vitasoy.com), is a HK-based company known as the Soy Expert in Asia. I attended its interim results announcement meeting in HK presented by its Chairman, CEO and CFO. Both revenue and earnings grew 10% in 1H ending 09/2010. Gross margin was maintained at 50% through improved efficiency and effective cost management which offset key cost increases in milk powder, sugar and soy beans. Growth in China was the focus of Q&As. Some investors considered the +14% growth as low and asked the management to be more aggressive. I think the current expansion pace is reasonable, however, due to the short-term bottleneck in production capacity. Growth should pick up soon because production capacity will be doubled within three years. I agree with management's prudence in China. It takes time for the public to switch to buying soymilk from making it at home, and it also takes time to educate the public on the health benefits of soymilk.

Nabtesco, [www.nabtesco.com](http://www.nabtesco.com), is a Japan-based manufacturer highly regarded for its unique motion control technology. It is a good example of how Japanese companies can benefit from the China effect, with 30% of sales from China. In the transportation equipment segment, it has grown market share in China to 40% from 25% last year for high-speed train brakes and doors. In the hydraulic equipment segment, its market share in China has increased to 40% from 25% last year. In the industrial equipment segment, new M&As may be conducted to improve the flat sales. In the precision equipment segment, it is running at full capacity and will increase capacity by 20% next year. For business details, you may refer to our recent commentary of October 29, 2010 and watch the corporate video at <http://www.nabtesco.com/en/company/profile.html>.

Goodpack, [www.goodpack.com](http://www.goodpack.com), is a Singapore-based company engaged in the business of renting its patented Intermediate Bulk Containers (IBCs). Its IBCs mainly transport natural rubber, synthetic rubber, and fruit juice around the world. The strength of the business model is that the more locations it reaches, the more efficient it will become through increasing trade lane matches (i.e. transport goods also on the return journey). By renting Goodpack's IBCs, customers can save cost from 5% to 80%. What's more, each year Goodpack's IBC fleet saves an equivalent of 4 million trees that needs not to be harvested to make disposable IBCs. The company has achieved strong growth since our visit a year ago. Now it has the world's largest fleet of 2.30 million IBCs circulating in 68 countries. It operates at 5,000 locations compared with 3,700 locations a year ago. Management advised that the near-term growth driver continues to be synthetic rubber, in which Goodpack has 22% world market share. In three years auto parts will be the engine to drive the company to a new phase of strong growth. For business details, please refer to a new corporate video available at <http://www.goodpack.com/video.php>.

This report is provided solely for informational purposes and nothing in this document constitutes an offer or a solicitation of an offer to purchase any security. This report has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient and does not constitute a representation that any investment strategy is suitable or appropriate to a recipient's individual circumstances. Global Alpha Capital Management Ltd. (Global Alpha) in no case directly or implicitly guarantees the future value of securities mentioned in this document. The opinions expressed herein are based on Global Alpha's analysis as at the date of this report, and any opinions, projections or estimates may be changed without notice. Global Alpha, its affiliates, directors, officers and employees may buy, sell or hold a position in securities of a company(ies) mentioned herein. The particulars contained herein were obtained from sources, which Global believes to be reliable but Global Alpha makes no representation or warranty as to the completeness or accuracy of the information contained herein and accepts no responsibility or liability for loss or damage arising from the receipt or use of this document or its contents.

Performance figures are stated in Canadian dollars and are net of trading costs and gross of operating expenses and management fees. Further information about the Global Small Cap Composite is available by contacting the firm. Global Alpha Capital Management Ltd. (Global Alpha) claims compliance with the Global Investment Performance Standards (GIPS<sup>®</sup>) and has prepared and presented this report in compliance with the GIPS. Global Alpha has not been independently verified.

Disco, [www.disco.co.jp](http://www.disco.co.jp), is a Japan-based manufacturer of abrasive equipment with true 'cutting edge' technology. Its products are widely used in the semiconductor manufacturing process. It has a dominant position, about 70% world market share, in all three product segments: dicing saws; grinders; and precision processing tools (consumables: dicing blade, grinding wheel and dry polishing wheel). Management emphasizes that it is a technology-driven company spending 10% of sales on R&D; this clearly differentiates Disco from its competitors. Its Application Lab in Tokyo conducts about 2,500 tests a year in cooperation with customers and prospects. The company's recent downward forecast revision for the year ending 03/2011 was mainly due to slower than expected growth of dicing blades sales in Taiwan and Korea, which have already reached record highs in the 1H period. Another reason was due to the strong yen. Nonetheless, the company aims to increase sales by 59% in FY2011. High growth in the next few years will come from Taiwan, Korea and China.

Regards  
The Global Alpha team

This report is provided solely for informational purposes and nothing in this document constitutes an offer or a solicitation of an offer to purchase any security. This report has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient and does not constitute a representation that any investment strategy is suitable or appropriate to a recipient's individual circumstances. Global Alpha Capital Management Ltd. (Global Alpha) in no case directly or implicitly guarantees the future value of securities mentioned in this document. The opinions expressed herein are based on Global Alpha's analysis as at the date of this report, and any opinions, projections or estimates may be changed without notice. Global Alpha, its affiliates, directors, officers and employees may buy, sell or hold a position in securities of a company(ies) mentioned herein. The particulars contained herein were obtained from sources, which Global believes to be reliable but Global Alpha makes no representation or warranty as to the completeness or accuracy of the information contained herein and accepts no responsibility or liability for loss or damage arising from the receipt or use of this document or its contents.

Performance figures are stated in Canadian dollars and are net of trading costs and gross of operating expenses and management fees. Further information about the Global Small Cap Composite is available by contacting the firm. Global Alpha Capital Management Ltd. (Global Alpha) claims compliance with the Global Investment Performance Standards (GIPS<sup>®</sup>) and has prepared and presented this report in compliance with the GIPS. Global Alpha has not been independently verified.