



Pangolin Investment Management

Pangolin Asia Fund First Half 2005 Report

The NAV of the A shares was U\$96.77 at the end of the period. Please note that the fund has a November year end, thus the first half ended on May 31st.

At the half's end the fund was approximately 60% invested, but as I write that has increased to about 85% due to weakness in the targeted investments. The fund is seeing new subscriptions (I am adding to my holding and new investors have also come in) and I maintain that the recent sell-down in Asian markets is good news for the fund.

Those who read Francesco Guerrera's piece in last weekend's Financial Times might well be frightened into an opposite view, given his bearishness on Asia. The article is available on www.ft.com (to subscribers only I'm afraid), but I would argue that his evidence on money exiting the Indonesian market was mightily distorted by Philip Morris's cash payment to HM Sampoerna's shareholders. Anyway, be aware that there are influential bears on Asia around even though one is normally battered by more bullish sentiment. And let's hope the bears are wrong.

Some spurious details of the fund's positions follow. If you wish to discuss any of the holdings in more detail, please feel free to contact me.

Investments

The fund's investments are largely geared towards the Asian consumer although there is some exposure to manufacturing and therefore consumption in the West. Investors in the fund wishing to boost the performance of the companies held should act as follows:

- 1) Go to Indonesia and when there head straight out of the hotel to the nearest shopping area, remembering not to turn off the lights in your room. This will benefit **YTL Power** (the fund holds the warrants) which has an investment in a power plant in Java and is bidding for others. There is an acute shortage of power in Indonesia and companies such as YTL Power are looking to fill the gap. High power demand will also help **Duta Pertiwi Nusantara** (the fund has a scrap of this only) which has access to coal reserves in Sumatera and may build its own power plant at some time in the future; first it must extract the coal at a profit.

Once at the shops find for the nearest Bata shoe shop and spend like crazy, thus benefiting **PT Sepatu Bata** which, if it hits management's targets (it seldom does), is on a PE of 5 and a dividend yield of 10%. This company has stores throughout Indonesia and has a strong brand name. It is also highly illiquid which is why most investors shun it.

Leaving the lights on is also beneficial to **Bina Danatarma Finance**. This company is primarily involved in the financing of heavy equipment used in the mining industry as well as for logging (sadly) and construction. Should one wish to really see the country Bina Danatarma will also happily lend you the money to buy a second hand car, but don't forget to repayments as the police are commonly called upon to help settle outstanding loans in Indonesia.

The fan from the air con in your hotel room (which you will have on full power) may well have ruined your hair. No problem. Buy a litre of Gatsby hair gel, made by **Mandom Indonesia**, plus any other cosmetics you may desire. Don't worry about not being able to get enough; the company is planning to triple production over the next few years.

- 2) Next, go to Singapore and incorporate a company. Need help? **Boardroom Ltd.**, the former company secretarial business of Ernst & Young, is the company to contact, and they'll also manage the entire payroll, accounts and share registration for you too. It is Singapore's largest company secretarial firm. Should you wish to expand your business empire they have just made similar acquisitions in Hong Kong and Malaysia. And, by the way, it is in the fund.



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- 3) When expanding your business in Malaysia, you will need to open a bank account. **Public Bank** is Malaysia's largest non-government bank and is most efficient. It also has the fastest loan growth, despite being renowned for its prudence.

Having remembered to leave the lights on again (again for the benefit of Malaysian power generator **YTL Power**), head to the local supermarket to stock up on Silver Bird cakes (they last for months apparently) and High 5 bread, both produced by the country's fastest growing bakery company, **Silver Bird**. They are second in terms of market share (bread) but growing faster than the leading brand in a market that is expanding as Asians westernise their diets and increase their bread consumption.

- 4) Thailand next to buy a flat in Bangkok. Nothing fancy, in fact quite the opposite. 30 square meters for about U\$25,000. **LPN Development** will take your deposit and deliver your completed unit within 12 months. Sales are quite brisk at this end of the market despite increases in diesel prices and interest rates, so don't delay too long once the project has been launched or there may not be any units left.
- 5) Enough of Asia? Head to the West, first via South Australia where you will again leave the lights on (**YTL Power** has an electricity transmission business here), then to the United States and to Pottery Barn to buy furniture. Chances are that the decent quality but well priced sofas, chairs and tables you take home will have been manufactured in Vietnam by **Koda Ltd.**, a Singapore listed furniture company currently seeing strong growth in its exports business. Its manufacturing activities in Vietnam are virtually tax free. You can turn off the lights here.
- 6) On arrival in Britain go to Bath and turn on all the taps in your hotel room (thus boosting revenues at Wessex Water, owned by **YTL Power**) before heading out to an Argos store to buy even more Vietnam-made furniture.

Now if I can persuade enough people to act as described above, the fund should do rather well.

Markets Comment

I am relaxed about the fund's holdings and happy to have picked up more stock in the recent weakness. If the FT's weekend correspondent is correct there is more weakness to come (who knows?) but despite that I do believe that the prospects for the above-mentioned companies are excellent and that will, in time, be reflected in their valuations.

Shareholders in the fund are reminded that the minimum additional subscription is U\$5,000 and that periodic additions will smooth out any shorter term market movements.

Investors are encouraged to suggest ideas, comment or interrogate as they see fit.

James Hay

16th June 2005.