



Pangolin Investment Management

Pangolin Asia Fund announces month end NAV – December 2006

At 31st December 2006, the NAV of the Class A shares of Pangolin Asia Fund was US\$128.83, net of all fees and expenses, up 2.40% from US\$125.81 in November.

At the end of December the fund was approximately 98% invested.

I began the New Year with a trip to Jakarta, via Bali, and both locations are obviously busier than on my last visit. Bali is slowly recovering from the 2005 bombs and Jakarta is bustling in line with the economy. There even seemed to be a few tourists in Jakarta, although I'm not sure why. Other than the Dutch with an interest in colonial history, there is little to attract holidaymakers. However the stylish Café Batavia was full of Dutchmen enjoying a cooling beer, presumably after an interesting trip around the (not air-conditioned) museum opposite in which the entrepreneurial curator will have explained to them the various methods of torture their forefathers used in order to civilise the local population. Death by leeches was apparently an effective deterrent against those considering organising protests.....

Indonesia is doing better and declining interest rates should ensure an improvement in domestic consumption in 2007. However, 2006 was worse than many of the companies under our coverage had expected, with little pick up in demand as yet. Bear in mind that many consumers in Indonesia are at the level of having perhaps just one pair of shoes; in good times they replace them when they are worn out; in tough times they keep repairing them or go barefoot.

There is still a serious lack of job creation with a mixed message emanating from the Government. The President, with little parliamentary clout, talks of the need to pass new laws in order to simplify and accelerate foreign investment (FDI), while the parliament, with little presidential influence, spends its time dreaming up yet new regulations to hamper businessmen. So while the presidency is talking about simplifying the tax laws and immigration procedures for example, parliament is proposing new amendments to existing cumbersome regulations, as it is with the mining law, for instance.

The effect is that investors are presented with a muddled picture and are unable to calculate their potential returns, as today's rules are likely to be changed more than once over the life of the mine, oil well or whatever. For miners, Indonesia is one of the world's most highly prospective countries yet it attracts only 0.5% of the funds dedicated to green field sites. Despite the recent commodities boom mineral exploration expenditure has dropped from US\$134 million in 1995-1997 to a mere US\$33 million 2001-2004.

A report in the Jakarta post cited three foreign companies that were planning to relocate from Batam to either Vietnam or Thailand. The reason given was the increase in minimum wage decreed by the local authorities. The companies were not named, but apparently one is an electronics manufacturer employing 3,000 workers. It is hoped that the Government will have another go at reforming the labour laws in 2007, but it would be a wonderful surprise if they were to make any substantial progress.

Most foreign investors are hopeful that the current President Susilo will win a second term. Due to the rapid increase in retail prices in his first two years, only one Jakarta taxi driver out of a about fifteen I polled would like to see him stay in power. He needs to start delivering jobs and some kind of prosperity soon or he will lose, and his rivals tend to be more populist and nationalist than he is.

The fund does not generally invest in government linked companies (GLCs), although we would be prepared to make an exception in the case of Singapore. Luckily this saved us from owning P Gas in Indonesia which has just announced that it will not meet its forecasts. This announcement came not long after the government had placed 3% of the company with investors. This policy has cost us in Malaysia where the GLC reforms have had a positive impact on performance and share prices.



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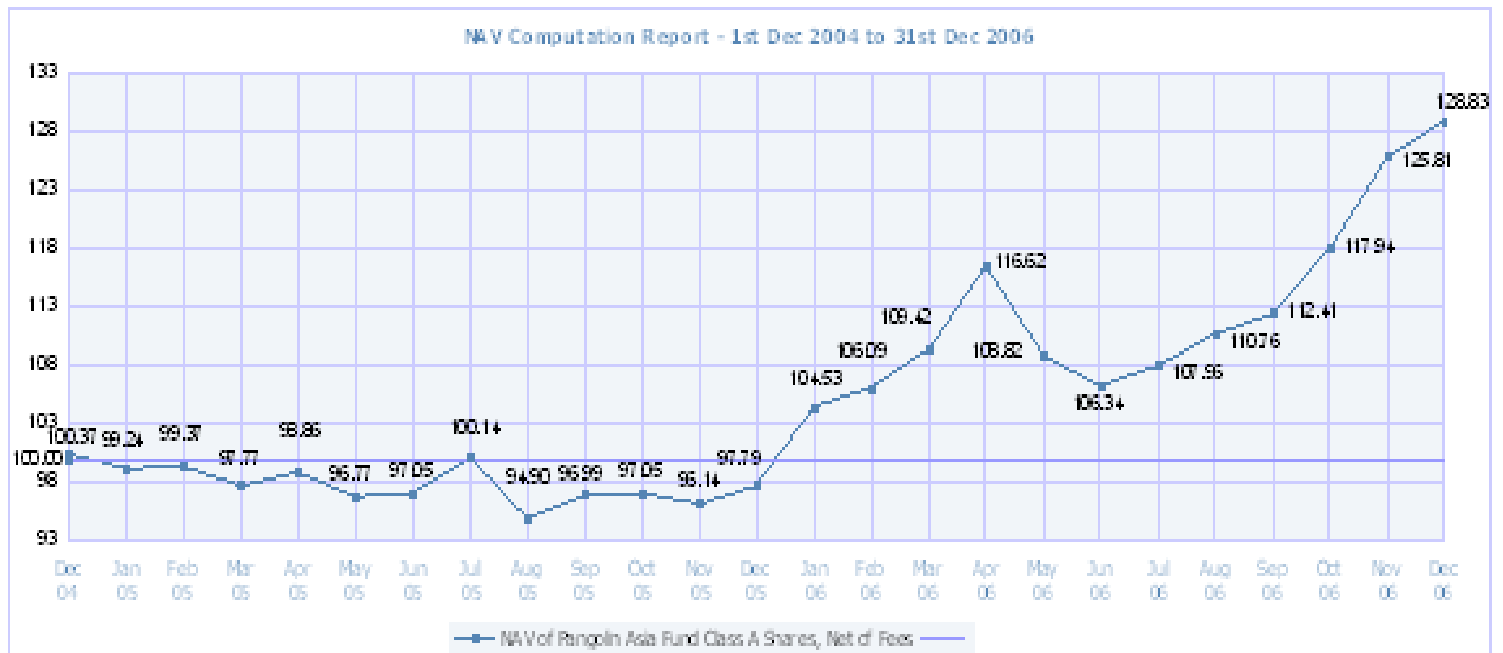
Despite the above, I remain optimistic about Indonesia's prospects. Thailand remains a concern and the proposed new foreign investment rules disallowing foreigners from owning more than 50% are totally daft. Two of the companies I met in Indonesia will be affected and neither was happy about ceding control to their Thai associates, who were of course selected as sleeping partners rather than as would-be controlling shareholders.

In Malaysia and Singapore the Hindu community will be celebrating Thaipusam with their usual gusto. This year it fall on 1st February and I would recommend anyone who has never seen it to visit Batu Caves, outside Kuala Lumpur, on that day.

More details concerning the fund's investments are always available to shareholders in the fund on request.

Further information can be found at www.pangolinfund.com.

James Hay





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NAV of Pangolin Asia Fund Class A Shares, Net of Fees

Month	NAV	% chg
1 Dec 2004	100.00	
31 Dec 2004	100.37	0.37%
31 Jan 2005	99.24	-1.13%
28 Feb 2005	99.37	0.13%
31 Mar 2005	97.77	-1.61%
29 Apr 2005	98.86	1.11%
31 May 2005	96.77	-2.11%
30 Jun 2005	97.05	0.29%
29 Jul 2005	100.14	3.18%
31 Aug 2005	94.90	-5.23%
30 Sep 2005	96.99	2.20%
31 Oct 2005	97.05	0.06%
30 Nov 2005	96.14	-0.94%
30 Dec 2005	97.79	1.72%
27 Jan 2006	104.53	6.89%
28 Feb 2006	106.09	1.49%
31 Mar 2006	109.42	3.14%
28 Apr 2006	116.62	6.58%
31 May 2006	108.82	-6.69%
30 Jun 2006	106.34	-2.28%
31 Jul 2006	107.96	1.52%
31 Aug 2006	110.76	2.59%
29 Sep 2006	112.41	1.49%
31 Oct 2006	117.94	4.92%
30 Nov 2006	125.81	6.67%
31 Dec 2006	128.83	2.40%

2005 return -2.57%
2006 return 31.74%