Pangolin Investment Management

Pangolin Asia Fund announces month end NAV – April 2007

At 30th April 2007, the NAV of the Class A shares of Pangolin Asia Fund was US$153.68, net of all fees and expenses, up 6.60% from US$144.17 in March.

At the end of April the fund was virtually fully invested and the split was approximately as follows:

Indonesia	40%
Malaysia	29%
Singapore	31%

Details of the individual holdings are available to investors on request.

Overview

The continuing flood of liquidity into virtually every asset class imaginable has boosted the prices of some of the fund's holdings (and the currencies) in the past month. Most, but not all of our stocks were up a bit, a couple were down and two of our holdings have benefited from re-ratings as analysts seem to have discovered them for the first time.

We still have some stocks which are trading at virtually the same price we paid for them a couple of years ago. They are small and illiquid by all definitions but we are confident that their managements are adding value that at some point will be recognised by investors. There is of course the risk that we are wrong and that is why the prices have not moved, but with luck we will also see some upside from these at some stage.

We remain cautious as the markets rise, especially as we are increasingly seeing brokers' research justifying buying stocks because they are cheaper than others or they might get this or that contract etc. In a previous existence I too was a fickle enough broker to realise that there was no point in giving an asset manager sell ideas when cash was flooding into his fund, which is the present situation for most of course. Therefore we try and invest in companies trading below their intrinsic rather than relative values. In the face of a market downturn this won't necessarily protect the fund in the short term but at least the businesses we own won't go bust (fingers crossed) and at some stage their earnings and assets should be rewarded by the market.

Investors in emerging markets should always be aware of the political risk; if the politics do not ensure that a reasonable economic environment exists then it is unlikely that even the best run companies will prosper. In most cases the level of political interference is low enough to allow businessmen to survive, but a glance at any newspaper will tell you that the political news from many emerging nations is worsening and this will undoubtedly affect commercial decisions. The rush of cash into developing nations is disguising the fact that doing business in Russia, Sri Lanka, Pakistan, Thailand, Bangladesh and Turkey (to name a few) is getting harder rather than easier; common sense tells us that the spreads should be widening, not narrowing.

In **Malaysia** we have seen a rash of privatisations from major shareholders, the most notable being Ananda Krishnan's bid to buy up the remaining stake in Maxis he doesn't own. Maxis is a highly profitable mobile phone operator in Malaysia and has expanded into India where the potential market is far larger than virtually saturated Malaysia. The reason given for the privatisation is that the investment in India is risky, requires a lot of cash flow and that Mr. Krishnan is doing minority shareholders a favour by removing their exposure to such risk. Well he didn't become a billionaire by getting too many things wrong and it is quite clear that he is seeing a fantastic opportunity to buy his company on the cheap. Fair enough, but what is mind-boggling is that all the brokers' research I have seen is recommending that investors accept the offer. It becomes less strange when one recognises that stockbrokers no longer exist as everyone now is an investment banker and corporate finance fees are more lucrative than trading commissions.

There is some talk that he may re-list Maxis at some point in the future (presumably when the business is worth a lot more). The Malaysian market doesn't value overseas operations such as Indian telephony properly and there is no doubt that if Maxis was listed elsewhere it would command a higher rating. In the fund we own a Malaysian company with undervalued overseas operations. If it were to be listed in the UK, for example, it would almost certainly trade higher (as presumably the investment bankers are telling them). This company does however benefit by being seen as Malaysian, so it probably won't happen, which is fine; we can continue to hold what we consider to be a well run company at a discount.
One indicator of an overvalued market is the re-emergence of Socially Responsible Investing (SRI). SRI investing should be welcomed in a world where the admission by the directors of a company that they have secured a logging concession is rewarded by an increase in the share price rather than a long jail sentence. Green investors need to pay attention to what they are actually investing into, especially in the fields of bio-fuel and reforestation. Without proper due diligence they may well be encouraging the clearing of irreplaceable virgin rainforests (in which pangolins live).

The **Indonesian** market continues to scale new highs despite the government still, in my opinion, taking six steps back for every seven forward. For example, the government recently announced that they would be scrapping the dividend withholding tax (good news for us) within a couple of days of declaring that they would be imposing foreign ownership restrictions on direct investment in certain industries. Indonesia continues to struggle to attract FDI (6 companies are closing operations in Batam Island) which is hardly surprising with measures like this. *Please see the note at the end of this letter for more detail.*

Having said that, the Q1 investment numbers are encouraging (+29% YOY) as are the falls in inflation and interest rates. First quarter results show that the consumer is still not spending and though we hope for a better Q2, the companies we speak to are continuing to give mixed signals, which is, I suppose, an improvement. The market has ignored all poor Q1 results as investors look to the future and concentrate on the good news.

As the fund grows in size we will continue to scour the region for cheap companies. To assist us in this we are looking to recruit an experienced analyst familiar with value investing to be based in Singapore. Please encourage anyone you think would be suitable to contact me.

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
14th May 2007

* The following is an extract from Mandiri Securities' research and gives a succinct view of Indonesia's problems in attracting FDI:

ECONOMIC

Economy: Delay in labor regulation hampers investment recovery

- Minister of Industry Fahmi Idris, indicated that there might be a delay in a long awaited government's labor regulation (in the form of PP or Peraturan Pemerintah) as the dispute between businesses and employee's representations continued. The disputes are mainly focused on the amount of severance payments as well as the increase in the minimum wage which in reality was much higher than the inflation rate.
- A World Bank's report shows that Indonesia's labor market is more rigid compared to other countries, as indicated by the highest severance cost amongst the Asean countries. Indonesia's severance payment, on an average, is 25 times of monthly salary, while Thailand is 13 times; Malaysia 20 times, Philippines 21 times and Vietnam 20 times;
- We view that the delay in the government's labor regulation is likely to hamper investment recovery. We view that Indonesia's rigid and uncompetitive labor regulations compared to its peer group is likely to dampen the much needed recovery in FDI to boost the economic growth. At this juncture we conservatively maintain our investment growth of 5% yoy by year-end 2007 vis-à-vis government's projection of 12.5% yoy.

Country	Difficulty of Hiring Index	Rigidity of Hours Index	Difficulty of Firing Index	Rigidity of Employment Index	Nonwage labor cost (% of salary)	Firing costs (months of wages)
China	11	20	40	24	44	21
India	33	20	70	41	16.8	13
Indonesia	61	20	50	44	10	25
Japan	28	60	0	29	12.7	2
Korea	11	60	30	34	17.5	21
Malaysia	0	20	10	10	12.8	20
Philippines	56	40	20	39	8.5	21
Singapore	0	0	0	0	13	1
Thailand	33	20	0	18	5.2	13
Vietnam	0	40	70	37	17	20

Source: World Bank

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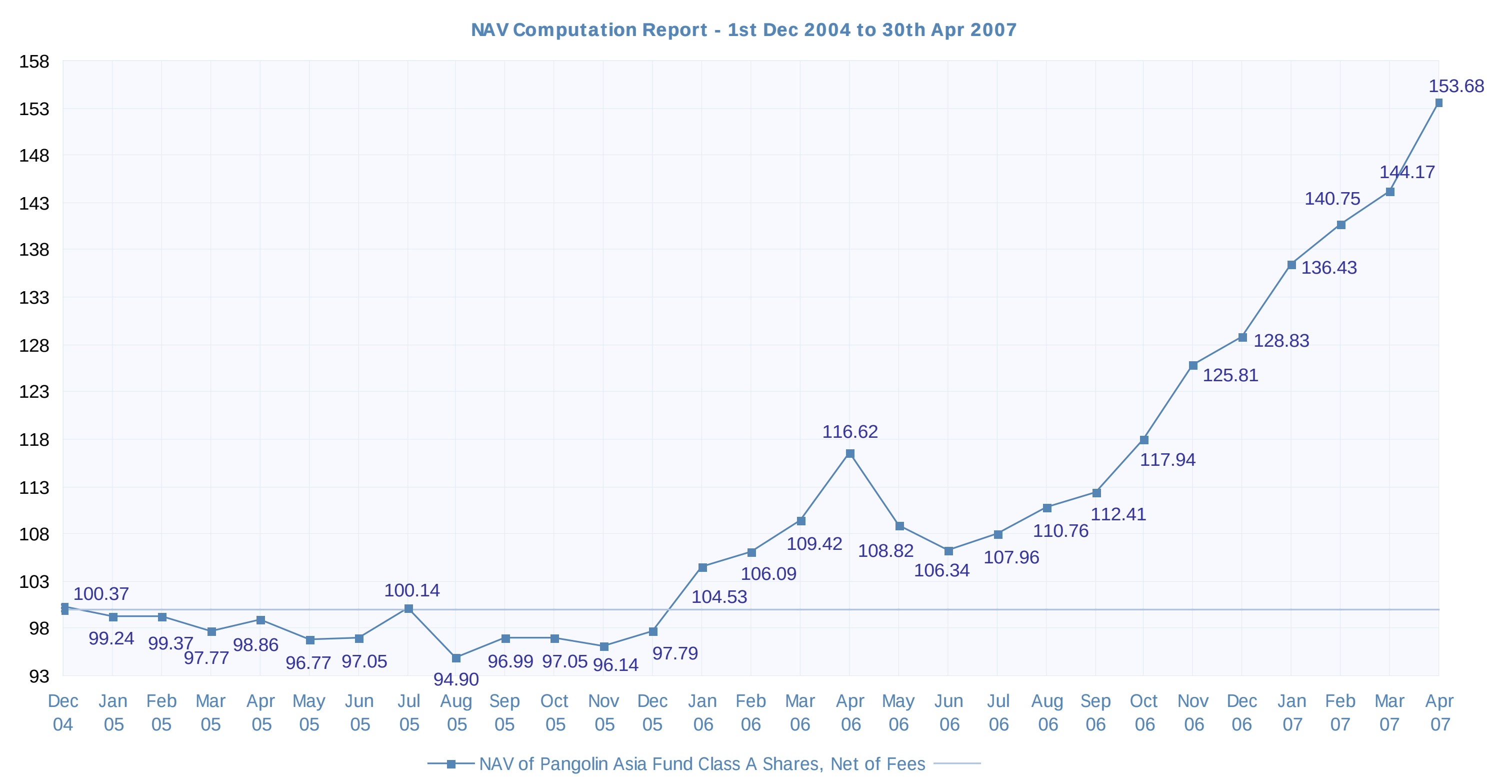

YEAR	DETAILS	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
2007	*Nav*	136.43	140.75	144.17	153.68								
	% chg	5.90%	3.17%	2.43%	6.60%								
2006	*Nav*	104.53	106.09	109.42	116.62	108.82	106.34	107.96	110.76	112.41	117.94	125.81	128.83
	% chg	6.89%	1.49%	3.14%	6.58%	-6.69%	-2.28%	1.52%	2.59%	1.49%	4.92%	6.67%	2.40%
2005	*Nav*	99.24	99.37	97.77	98.86	96.77	97.05	100.14	94.90	96.99	97.05	96.14	97.79
	% chg	-1.13%	0.13%	-1.61%	1.11%	-2.11%	0.29%	3.18%	-5.23%	2.20%	0.06%	-0.94%	1.72%
2004	*Nav*												100.37
	% chg												0.37%

2005 return	-2.57%
2006 return	31.74%
2007 return	19.29%
Average monthly return	1.55%
Average return (annualized)	18.57%
Best monthly return	6.89%
Worst monthly return	-6.69%

Return since inception	53.68%
Maximum drawdown	-8.81%
% of positive months	75.86%
Standard deviation	3.38%
Standard deviation (annualized)	11.70%
Semi deviation	2.44%
Semi deviation (annualized)	8.45%
Sharpe ratio	1.25