Pangolin Investment Management

Pangolin Asia Fund Third Quarter 2007 Report– August 2007

As of the 30th of August 2007, the NAV of the Class A shares of Pangolin Asia Fund was US$150.23, net of all fees and expenses, down 5.85% from US$159.56 in July.

At the end of August the fund was about 90% invested, with the split being approximately as follows:

Indonesia	43%
Malaysia	31%
Singapore	25%

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

Overview

The fund has a November year end which is why August is the third quarter.

After our (unlucky) 13 months winning sequence we were hit by weakening currencies and a fall in the prices of some of our holdings. There seems to be a lot of hysteria around at the moment over sub-prime but perhaps many are forgetting that it is (a) normal for markets to go down occasionally and (b) that rising interest rates often have this effect. As for the effects of sub-prime, it seems that it is rather like waiting for a Tsunami; we've had the earthquake and the warnings have been issued, but we still don't know how big the wave will be, when it will strike or if it will cause any substantial damage.

The one bank held by the fund (Public Bank) has announced that it has no CDO exposure, although we would have been nastily surprised if it had. Let's hope they don't emulate Maybank who confidently announced zero exposure, did a bit of double checking and conceded that they were exposed to the tune of U$60m and then raised this amount to U$95m after having a chat with their autonomous-sounding New York branch.

There is of course, as always, plenty worry to about. It is just that the market tends to wear its worried face when prices go down but really the long-term investor should be smiling when this happens; he can buy more for less. The Asian currencies we are exposed to have weakened as the yen carry trade has unwound and other investors have reduced their exposure, but unless this decline cascades into a 1997 style crash (which seems unlikely) the economies will benefit from more competitive exchange rates.

The rising oil price is cause for concern for some but actually much of **Indonesia** (and elsewhere) is benefiting from higher commodity prices, while foreign investment in non-commodity related activity remains anaemic. Overall consumption levels remain low in that country and all the fund's investments here are consumer related. As long as the politicians don't screw things up too much, then Indonesia's population will increasingly spend their hard earned cash on essential items such as motorbikes, junk food, hair gel and face whitening creams much to the benefit of our investments.

The Supreme Court has ruled that Time Magazine must pay the former ruler General Suharto U$106m for falsely accusing him and his family of accumulating wealth through corruption and cronyism. The Supreme Court I refer to is Indonesia's, by the way. As he had originally asked for U$27bn presumably this must be viewed as a victory for press freedom, although potential foreign investors may well see it as a further reason to invest elsewhere. I just hope he spends the money on a motorbike, junk food, hair gel and face whitening cream.

The biggest worry I have is Indonesia's bizarre plan to start building a nuclear power station. Those with long memories will remember the case of the Daya Bay nuclear power station in southern China, next to Hong Kong, in which the corrupt construction company didn't use enough iron rods or beams in the foundations in order to save money. God only knows what kind of ingenious shortcuts in the construction will be dreamt of in this case, in one of the world's most corrupt nations. But even if the thing is built properly the government seems to have forgotten that Indonesia really own only makes international headlines for its seismic volatility.

I assume that they are hoping Australia will panic and pay them a fortune not to build it, rather as Australia is now paying Indonesia to replant forests and protect some of what it still has. In effect the Indonesian government is holding a gun to an Orang Utan's head and saying "pay up or he gets it" but at least this may slow the logging and destruction of vastly disappearing habitat. The World Conservation Union has estimated that in Borneo alone the land under palm oil cultivation increased from 2,000 km^2 to 27,000km^2 from 1984 – 2003 leaving a balance of 86,000km^2 as virgin jungle. That was four years ago, before the price of palm oil boomed and the explosion in new planting.

ASDA in the UK has stopped selling Malaysian palm oil products. Investors who care should put pressure on their broker and investment banking contacts who claim to be clean and green yet are happy to publish research notes (often on what is claimed to be recycled paper) recommending companies that log virgin rainforests.

In **Malaysia** the investment landscape continues to improve as the government (ever so slowly) moves the economy in the right direction. The nation's recent 50th birthday has led some to be critical of many of the country's policies such as the favouritism shown to the ethnic Malays (Bumis) or use of the Internal security Act, but while the opposition alleges that the stresses and strains are getting greater, in reality it is probably just business as usual. For those wanting another view an occasional look at either www.malaysiakini.com or www.malaysia-today.net will provide it.

The publication of the most recent Auditor General's report has highlighted the high level of mismanagement of public funds and has got the newspapers raving indignant. This is an annual event and, as above, is a reminder that it is business as usual here.

Attracting slightly less attention in the papers is the deterioration in Malaysia–Indonesia relations. Recently the Indonesian karate coach was beaten up by Malaysian policemen (I wonder who coached them) and the campaign of caning illegal immigrants (predominantly Indonesians) before deportation has stirred things up. Meanwhile Malaysia seemingly blames all social ills on Indonesians which doesn't help much. It's probably nothing to worry about but expect to hear more sabre-rattling from Indonesian politicians playing the nationalist card as the 2009 election nears.

In **Singapore** the main topic of conversation seems to be the housing market as the government sends signals that house prices have risen too much, and hints at measures designed to cool things off. Not very exciting; which is just how they like it there.

Meanwhile our company visits and research convince us that the argument for investing in Asia remains sound over the long term and any market wobbles will likely provide buying opportunities (not that we have much cash). Although it seems news to the commentators on CNBC and the like that markets occasionally go down and that emerging market investing carries its own set of risks, we hope that our long term approach will see us right, and if we get the chance to buy more for less, so much the better.

James Hay

17th September 2007

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

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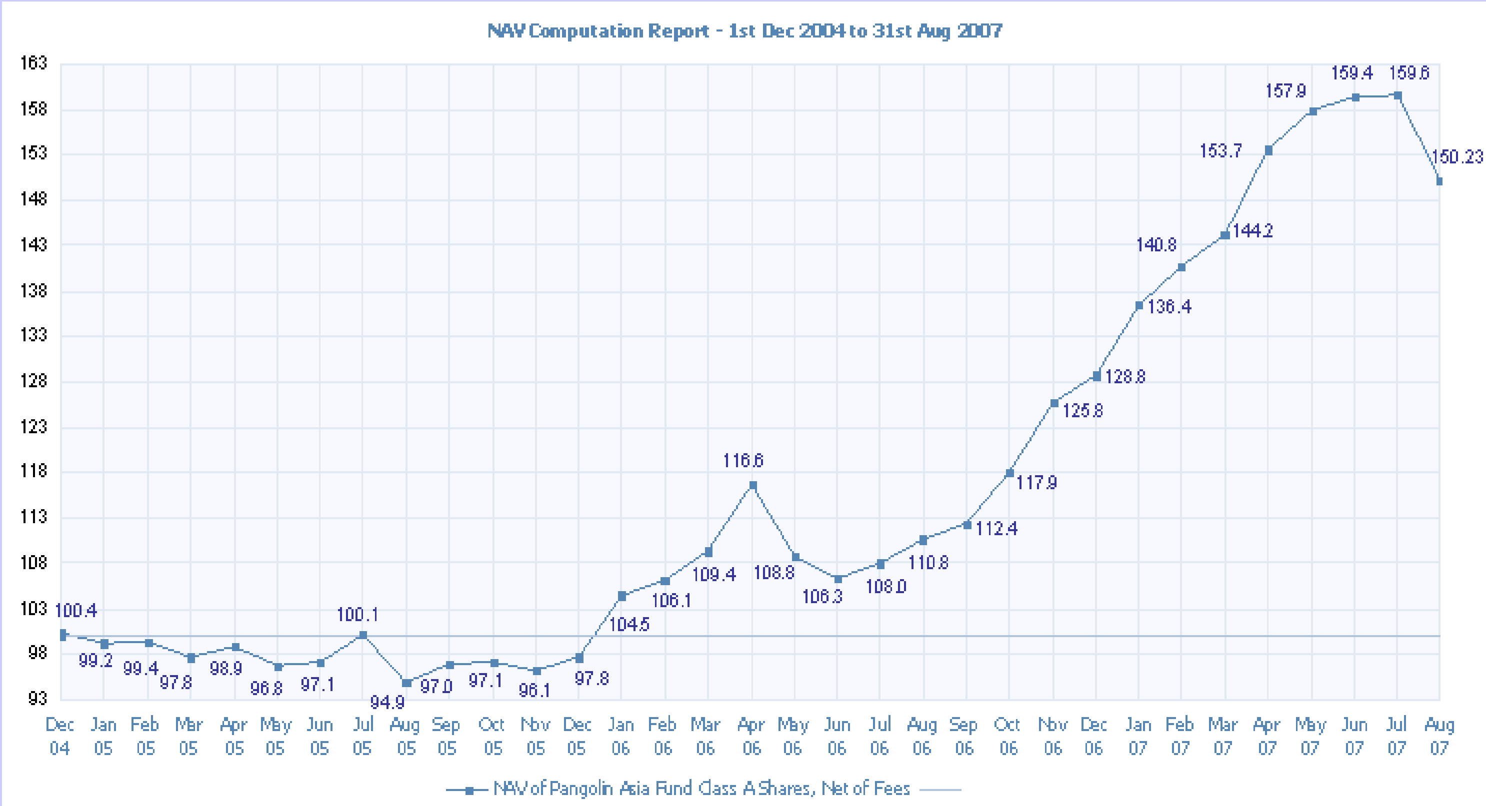

Year	Details	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2007	***Nav***	**136.43**	**140.75**	**144.17**	**153.68**	**157.90**	**159.36**	**159.56**	**150.23**					**16.61%**
	% chg	**5.90%**	**3.17%**	**2.43%**	**6.60%**	**2.75%**	**0.92%**	**0.13%**	**-5.85%**					
2006	***Nav***	**104.53**	**106.09**	**109.42**	**116.62**	**108.82**	**106.34**	**107.96**	**110.76**	**112.41**	**117.94**	**125.81**	**128.83**	**31.74%**
	% 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**	**-2.57%**
	% 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%	**Return since inception**	50.23%
2006 return	31.74%	**Maximum drawdown**	-8.81%
2007 return	16.61%	**% of positive months**	75.76%
Average monthly return	1.30%	**Standard deviation**	3.43%
Average return (annualized)	15.57%	**Standard deviation (annualized)**	11.87%
Best monthly return	6.89%	**Semi deviation**	2.51%
Worst monthly return	-6.69%	**Semi deviation (annualized)**	8.69%
		Sharpe ratio	0.97