Prusik Asia Fund Plc

FSA Authorised
Recognised Schedule 5

Prusik Investment Management LLP

An Independent Asian specialist investment manager

NAV Updates

Series	*January '08*	*MTD*	*YTD*
Class A	165.67	-6.78%	-6.78%
Class B	165.72	-6.77%	-6.77%
Class C GBP	89.30	-6.69%	-6.69%

Fund Size $410m

NAV Update	**January 2008**
Class A USD	
Non distributing	USD165.67
Class B USD	
Distributing*	USD165.72
Class C GBP	
Distributing*	GBP 89.30

The fund fell 6.7% in January. Our five chosen themes all performed well with stocks in some of our themes, coal, gold and power transmission and distribution, reaching new highs during the month. However, the mid month announcement of price controls on various items in China sent our food stocks reeling in the final two weeks. This generated most of the fund's decline in January.

After such precipitous falls over the last few months, in particular, in January, it is tempting to look for evidence that we are discounting most of the bad news. Certainly, some share prices have now declined by as much as 50% and we have started to see the emergence of downgrades in forecasts by analysts this month. However, we think that the cuts made so far are still too modest. UBS estimates that our markets are now discounting a 5% fall in EPS in 2008E. However, bottom-up forecasts still assume that EBIT margins will rise this year by 0.7%. In the 2001 recession, EBIT margins declined 2.4%. We think that this recession could feel a lot worse. At our company visits, we consistently hear, anecdotally, of cost increases, of price controls and of cut-throat competition. Such evidence should generate a fairly blood curdling environment for margins and this is even before we factor in the impact of slower demand of which, so far, we have heard less. PE contraction is definitely now under way. However, valuations remain well above levels historically achieved in slowdowns. According to UBS, the region is only 5% undervalued. This compares with historic 'buy' signals at which point regional markets were 25% undervalued. Admittedly, valuations look more attractive if we exclude India and China. Undoubtedly, we are therefore seeing the first signs of value emerging in some areas. However, only within the smaller companies' universe are we beginning to see signs of significant value developing, i.e. share prices trading below book value or replacement cost.

As a result, we are, generally, sticking to our themes like glue. We have added one further theme, an old favourite, the Taiwanese domestic sector, on which more below. Our concern is that the few themes and sectors which are performing well have now become overly popular. Such sectors are undoubtedly no longer cheap in absolute or relative terms. Security of earnings and pricing power remain key factors for the market. We therefore feel that it is too early to re-look at the economically more sensitive areas. However, we concede that after such sharp declines, a bounce is likely short term. We have not yet, once more, raised our cash position significantly. However, as we warned last month, it is possible that we will do so again post a significant re-bound.

Denial and anger

Elizabeth Kubler-Ross's well documented five stages of grief begin with denial and are then followed by anger, bargaining, depression and finally acceptance. Given the inability of commentators so far on either CNBC or Bloomberg television fully to articulate the 'R' word, we must assume that we are still at the first stage. However, there are signs of an emerging state of anger and fear. It feels as if world markets are sitting on the edge of their seat waiting for something momentous to happen.

In America, for example, in spite of violent crime dropping steadily for nearly two decades, most Americans feel increasingly unsafe in their homes and neighbourhoods. As documented below, demonstrations and minor riots have erupted all over the world as food and fuel shortages and the resulting price increases have struck at the deepest levels of psychological insecurity. Who foresaw the recent collapse of stability in Kenya? MSCI definitely did not, having included Kenya in its Frontier index only last November. Prospects in both Pakistan and South Africa now look decidedly uncertain. As such flashpoints erupt, we wonder if the anger stage could be messier and more violent than any of us are currently articulating.

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Bank lending

We do not normally comment on macro economics. However, the Fed Senior Loan Officer Survey on US bank lending in January caught our eye. In short, lending standards appear to have been tightened abruptly and, in some areas, to a degree not seen before. Today, the proportion of loan officers tightening up on corporate lending criteria is on a scale to imply, on previous measures, that the level of corporate defaults will rise to 8% by January 2009. This compares with a level of defaults today standing at just 1%. Worse, the percentage of banks, which reported that they had tightened their US commercial real estate lending criteria in January, was unprecedented having soared from 50% to 80%. In the 1990 recession, this measure peaked at 69%. Net tightening of residential mortgage lending criteria was also off the scale. Even 53% of banks reported that they had tightened prime lending criteria. The commercial real estate number is of particular concern as many of these loans are still on banks' balance sheets. In addition, such loans comprise half of all property loans and over 19% of banks' total loan books.

It therefore seems likely that, no matter to what extent interest rates fall, loans in the US will probably become more scarce and expensive. The implications of these trends are not pleasant. We think that many Asian corporates and investors have yet to understand, in terms of their speed and severity, the impact of such trends on external demand.

Finally, it is worth noting that the ITraxx index in Japan, which measures the default risk of fifty Japanese companies, saw its biggest one day jump ever last week. Rightly or wrongly this is a distress signal. With only some US$130 billion of the US$400 billion to US$500 billion of the sub-prime black hole accounted for in the US and Europe, the accounts of the Japanese banks, which have strict new audit codes to adhere to and report by end March, may well reveal some nasty surprises. As a result, the sub-prime fallout could move to Asia and stimulate a further leg down in market sentiment.

Food

It is human nature to find excuses to explain why bad news does not last. In the UK, the one off explanation is almost always the weather. With floods in Australia, snow in China and droughts in New Zealand, to name but a few 'one offs' which are pushing food and coal prices higher, we now find ourselves in sizeable international company. In New Zealand, Fonterra, which is the world's biggest dairy exporter, co-operatively owned by 11,000 farmers and accounting for a whopping 40% of the global trade in milk powder, butter and cheese, is suffering from the driest January on record. Contracts can be met but there is no additional supply to meet any new orders. This is likely to cost farmers in New Zealand over US$400 million in lost revenue. It will likely cost the rest of us even more. Fonterra sells to 140 countries. Milk prices are therefore unlikely to fall any time soon and grain prices will suffer further upward pressure as New Zealand farmers turn to the international market to seek alternative sources of feed.

We think it would be foolhardy to blame just the weather. Record grain and cooking oil prices have ignited food riots and demonstrations from Rome to Jakarta. In the latter, this included, during our recent visit to the city, 10,000 sellers of soya-bean products protesting outside the Government Palace in the face of higher prices. In Pakistan, troops now guard wheat stocks. China and Russia have imposed price controls. In the US, food banks are now being forced to ration supplies and 10% of rural food banks have closed due to a lack of food supply. The New Hampshire Food Bank reported that food demand was up 40% and supply down 30% and this is in the state with the lowest reliance on food banks. Global stores of key grains are down to just a few weeks, twelve weeks for corn and eight for wheat. For the time being, we therefore feel confident that our food producers remain a good investment.

Coal

Elsewhere, the unexpected January cold snap in China has bought the country's rising coal deficit to the front pages of Western newspapers; this is usually a sign that most of the news has been discounted by investors. However, coal inventories are down at record low levels and some plants, reportedly, have only three days' supply. As a result, China has banned all exports of coal. This time last year, China exported seven million tonnes of coal, around 4% of North Asian demand. The Australian floods have taken a further one million tonnes of coal out of the market, albeit temporarily, and there is little comfort from seasonal factors in demand these days. The last time the Chinese banned coal exports, coal prices jumped from US$39 to US$65 per tonne. At today's price of US$125 per tonne, coal is still 50% cheaper as a source of fuel than oil, leaving, we believe, further upside, more acquisitions and more emissions to come.

China

With over US$3 trillion, an amount equivalent to 25% of US GDP, wiped off the value of shares in the US stock market alone since October, and that is before the impact of declines in international equity holdings, property assets and sub-prime related losses is taken into account, it is counter to all logic that we could possibly be living with inflation for long. However, many of the essentials, coal food, oil, and building materials are all in short supply with no foreseeable significant change.

Perhaps, the key here is the actions of the Chinese Authorities, the scale of the resulting economic slowdown in China and the consequent impact on demand for such essentials. For example, pork accounts for around 65% of meat consumption in the Chinese world and its price rose by 70% in a single day in Hong Kong in January 2008, having risen by 70% during 2007. The main reason behind such a rise was a contraction in supply, the result of, historically, low prices, rising feed prices and the involuntary culling of herds in China last year as a result of blue ear disease. However, the future supply outlook is not as one might expect. Due to a shortage of labour and lack of industrialisation in agriculture it is by no means a given that more pigs will be reared this year in response to higher hog prices.

Meanwhile vegetable oil, a food staple, continues also to rise in price. Thai Vegetable Oil, the largest processor of soya oil in South East Asia with operations in China, told us recently that vegetable oil prices, having risen around 80% last year, were continuing to rise. TVO is expanding capacity, but, significantly, not in China where the company is concerned that the imposition of price controls, in the face of rising soya-bean prices, will threaten future margins. This is instructive and possibly widespread and perpetuates the problem.

China therefore will likely face a difficult year. Demand for now remains stronger than supply with respect of labour, food and energy. A new cabinet in March will also introduce an element of policy uncertainty as younger and more aggressive figures move into office. We think that the new cabinet will pursue three major policy goals, namely to increase domestic consumption, to expand the proportion of economic activity from less labour and energy intensive industries and to develop and sustain a more ‘harmonious society’. Of the three, the latter is the most important. Authoritarian capitalism may ‘get the job done’, we hope. However, we would be wise not to forget the ‘authoritarian’ element in the equation. We expect some uncomfortable knee jerk responses. Such responses could potentially include, on a more positive note, a revaluation of the Renminbi after April 2008, and an easing of economic policy as we head towards the second half of 2008 and 2009.

More negatively, it is worth noting that discontent appears to be brewing over the manner in which local government officials have abused the lack of international standard property laws and, as a result, have been able, by force, to purchase land at a fraction of its true worth. It is, perhaps, no accident that in a recent Forbes list, five out of the top ten richest Chinese, were property developers. In addition, last year, the Chinese government closed down 44,000 ‘porn’ sites amid warnings from President Hu that widespread access to the internet threatened ‘social stability’. There is also speculation that various discontents will be aired via demonstrations during the Olympics. This probably implies more debate and agitation on the issue of China’s human rights’ record.

Power transmission

The recent failure of the South African electricity grid sums up the situation well. To a greater or lesser extent, many countries are at risk of a similar event. In Indonesia recently, we visited an independent power production company which had just bought a 51% stake in a company which builds power transmission and distribution networks in Indonesia. This company enjoys a domestic market share of 60% and has a current order book of US$750 million. To put this in context, the Indonesian government has recently announced plans to invest over US$20 billion to upgrade the electricity network. As a result, there appears to be a huge mismatch in supply and demand. This theme is one, we feel, which likely bears the least risk of being impacted by an economic slowdown. We believe that this theme is still little understood by investors in general. As a result, we think that the few companies which operate in this area possess significant upside.

Taiwan

The long awaited Presidential election in Taiwan will take place on March 22nd. January’s election to the legislature saw a landslide victory for the opposition party, the KMT, and gave a very strong indication that the KMT might also be able to secure victory in the Presidential elections in March. The likelihood of such a victory is probably well over 50%. If this were to happen, this will transform Taiwan whose domestic economy has been left standing by its regional neighbours for the last decade. A KMT victory primarily means the introduction of direct trade and travel links with China. Secondarily, it will also result in the repatriation of money and people who have been residing offshore. Over a million Taiwanese are forced to live in China because they cannot ‘commute’ easily via Hong Kong. The likely impact on Taipei’s rundown property stock and on the domestic economy could be electrifying. For example, according to CLSA, grade A office rents in Taipei, at around US$40 per square foot per month, are now below rental rates even in Ho Chi Minh City, which stand at US$49 per square foot per month, and well below Hong Kong, US$97, Singapore, US$68, and Shanghai, US$52. High end Taipei City residential property prices average around US$1,050 per square foot, around 20% of the current pricing of comparable properties in HK and 30% of comparable properties in Singapore. The currency should also benefit.

This is not a new theme for us. We first romanced this idea in late 2005. However, we have recently revisited some of our old investments and found some new ones.

Nevertheless, our exposure remains very conservative. This is not least because there is a risk that the KMT does not win the Presidential election. The upside, if it does, will be significant and mainly felt in the domestic asset, construction, transport and consumption industries. Our largest holding is Chunghwa Telecom. Aside from having sizeable 'hidden' assets and a very modest but stable and defensive growth outlook, it also has a potential FY12/08E dividend yield of 10.9%. If the KMT should win, we do not believe that it would be greedy to assume a total return, taking in currency, dividends and asset revaluations in the order of 30%, very valuable in this environment. Taiwan is currently our largest 'theme' at 13% of the fund.

Singapore hotels

While it is now looking a little tired, Singapore's Changi Airport remains the most efficient airport we visit and it is still a regular occurrence to travel from plane seat to bath or bar, delete accordingly, in under an hour! The new and more advanced Terminal 3 means that Changi's halo of efficiency is unlikely to slip. Singapore's strong reputation as a regional hub is likely to be extended with the latest push to increase tourism receipts. The huge Integrated Resources project in Singapore dominates a piece of land that was not even in existence fifteen years ago and is one of the largest single development sites we have ever seen. At the centre of this incredible project, which includes a casino, is a 10,000 seat conference centre. This will, once it is completed in just under three years time, no doubt add to Singapore's attraction as a regional centre for business travel, meetings and conventions. It is already ranked among the top three in the world. The casinos are a further aspect of the Singapore Government's plan to revamp the island's tourism sector. Going forward, Singapore's tourism sector should therefore remain strong as attractions such as the Singapore Flyer, the new casinos and the first Formula 1 night race this September bring in the crowds.

Alongside the conference centre will be an additional 3,000 hotel rooms, adding to the 30,000 of all standards already in existence. In November 2007, Singapore's aggregate hotel revenue was the highest ever generated in a single month and the average room rate was S$226, also a record. Average occupancy was a healthy 88%. We can confirm the imbalance in demand and supply in favour of the hoteliers, having tried four hotels on our last visit before finding a room. In recent years, the Authorities did offer land sites for hotel development but met with a muted response as this has been an industry which has been in the doldrums for many years. New hotels will therefore not be ready for at least three years. We also know from visiting local contractors that they are already working flat out and achieving margins double those in 2007. A three year planning and building schedule for a hotel could therefore be too ambitious. Estimates suggest that, even with the current planned new rooms built, there could be a shortfall of some 4,000 rooms. As a result, we see a neat window where hotels in Singapore could see a period of very strong returns. The fund has therefore recently invested in UOL, a diversified Singapore property company, 19% of whose gross asset value is hotel related. UOL is trading on around a 40% discount to estimated NAV, under 9x CY09E earnings and below forecast y/e 2008E book value.

Furthermore, we think that some of Singapore's excess visitor arrivals may spill over the causeway into Johor Bahru, Malaysia. Intriguingly, it takes half an hour to drive to Singapore's CBD from Johor, we made the journey, but there, house prices languish at only S$100 per square foot. In Singapore, the lowest end housing sells for around S$500 to S$1,200 per square foot while high end housing sells for S$3,000 or more per square foot. The fund has exposure to the Malaysian residential property market via Bandar Raya, a Malaysian high end smaller developer. At its current share price, Bandar Raya is modestly valued, trading on around 7.7x CY08E earnings, 3.9x CY09E earnings and at a discount of 50% to its estimated RNAV.

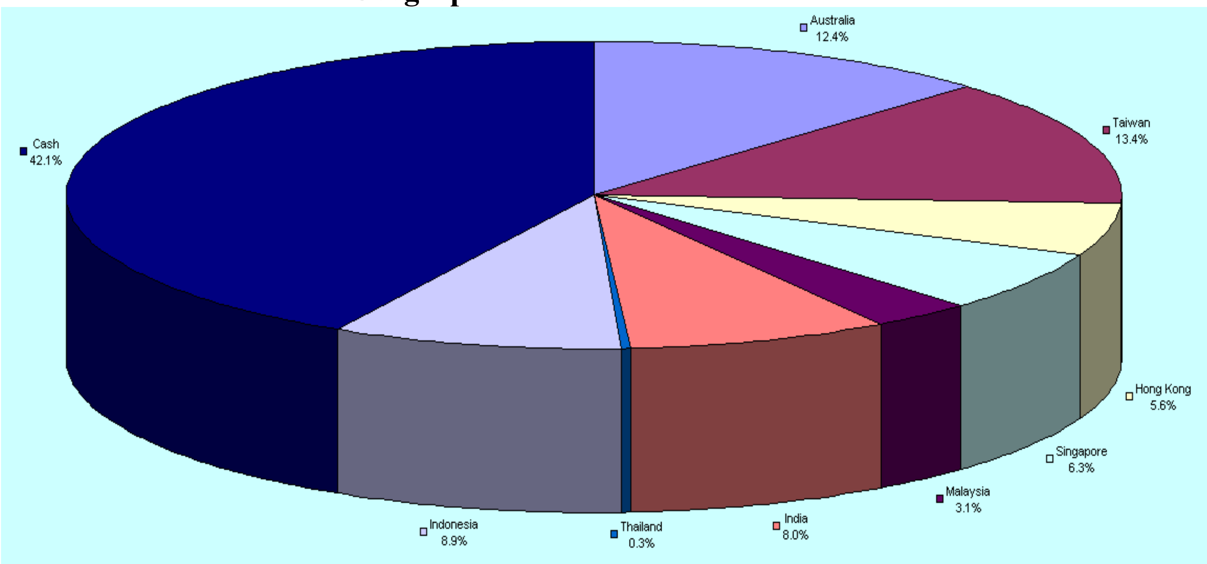
The portfolio is trading on 17.5x 2008E and 13.0x 2009E forecast earnings with earnings forecast to grow at 34% in 2009E. The portfolio's average Return on Equity now stands at around 22%. The decline in the portfolio's average 2009E PER from last month is largely driven by earnings upgrades across the fund's coal and gold mining investments.

Heather visits Hong Kong and Taiwan next month.

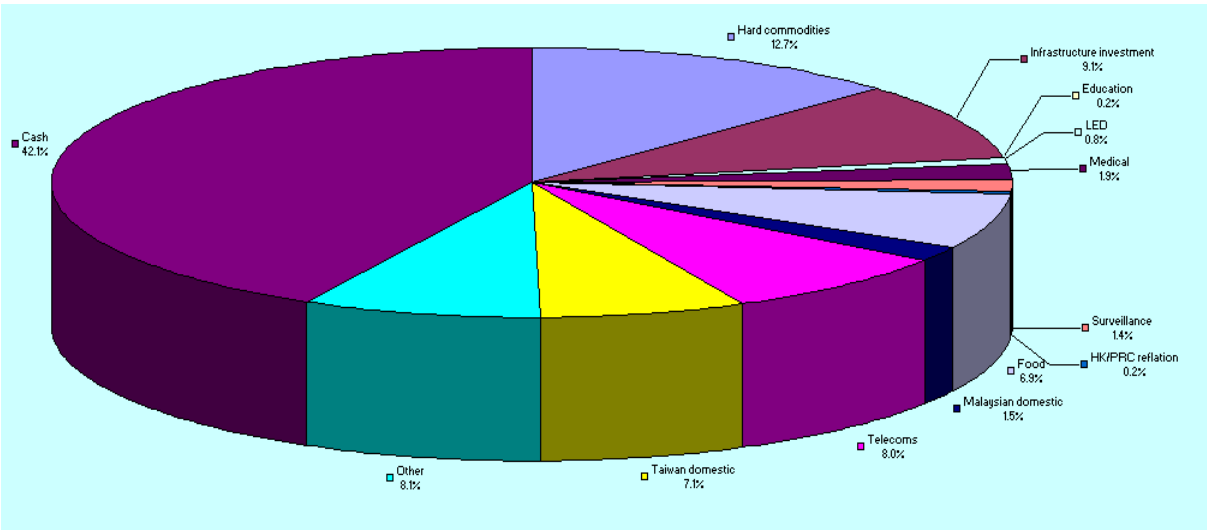
Top 5 Holdings	%
ICSA INDIA LTD	3.7%
NEWCREST MINING LIMITED	3.4%
BUMI RESOURCES TBK PT	3.3%
CHUNGHWA TELECOM CO LTD	3.1%
ASTRA INTERNATIONAL TBK PT	3.0%

Number of holdings	35
Percentage of Fund invested	57.9%

Geographical Distribution



Distribution by Theme



Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2005										-1.90	5.64	5.08
2006	7.71	0.09	1.84	10.14	-1.95	-0.45	-1.72	0.02	1.23	3.90	7.64	1.97
2007	-0.01	1.28	3.05	4.08	3.58	4.79	3.77	-3.75	5.67	2.61	-6.33	1.93
2008	-6.78											

Key Parties to Fund

Investment Manager	Prusik Investment Management LLP
Administrator	Bisys Fund Services (Dublin)
Custodian	Brown Brothers Harriman (Dublin)
Auditor	Ernst & Young
Legal Advisors	Dillon Eustace (Dublin) Simmons & Simmons (London)

Key Terms

Denomination		USD
Dealing Day		Weekly (Friday)
Minimum Subscription		USD100,000
Min Subsequent Subscription		USD10,000
Subscription Notice Period		2 business days
Redemption Notice Period		2 business days
Dividends		
Class A	None	
Class B	Annual	
Class C	Annual	

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Manager Fees

Management Fee	1.5% p.a. paid monthly in arrears.
Performance Fee	10% of NAV appreciation. With a 6% hurdle.

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