Prusik Asia Fund Plc

FSA Authorised
Recognised Schedule 5

Prusik Investment Management LLP

An Independent Asian specialist investment manager

NAV Updates

Series	*February '08*	*MTD*	*YTD*
Class A	177.11	6.91%	-0.34%
Class B	177.18	6.92%	-0.33%
Class C GBP	95.53	6.98%	-0.18%

Fund Size $405m

NAV Update	**February 2008**
Class A USD	
Non distributing	USD177.11
Class B USD	
Distributing*	USD177.18
Class C GBP	
Distributing*	GBP 95.53

The fund rose 7% in February. Our investments in coal, gold miners and food producers fared well. Thematically, our Taiwanese portion was the strongest performance driver as stocks began to discount the imminent possibility of a general election win for the opposition party, the KMT, on March 22nd. Such an outcome, which we think has about a 70% likelihood, would change entirely the political landscape in Taiwan, opening up the probability of direct travel and business links with mainland China. Such a dramatic change would be very beneficial to the domestic economy which has all but stalled in recent years. Domestically oriented stocks in Taiwan still offer some very attractively valued opportunities and the portfolio remains modestly skewed towards this theme.

The huge gains seen in Asian markets in recent years are a strong reminder that Asia is still 'well owned'. This, perhaps, partially explains why Asia Pacific markets have been the worst performers globally year to date. For example, the Hang Seng Index, at the time of writing, is down almost 20% YTD and the Australian All Ordinaries Index, in local currency terms, has declined 14% YTD. The level of volatility in the region therefore remains extremely high. While the volatility of the fund has, recently, also risen slightly, we are comforted by the fact that the fund's volatility is not rising in a relative sense.

On balance, we feel that the recent declines have, so far, been driven more by global factors such as rising global risk premiums and forced selling from non Asian specialist funds than by a specific deterioration in the Asia-Pacific region. That having been said, we are starting to see a more widespread reduction in analysts' expectations. However, many forecasts still seem too optimistic. At the time of writing, we have just completed a week in Hong Kong and Taiwan visiting companies. Manufacturers appear already really to be struggling with rising costs from every angle and, in Taiwan, a rising currency as well. However, few companies are actually reporting a slowdown in activity – yet. On a more positive note, we found a number of companies whose prospects, we felt, looked genuinely strong, and which, we feel, will likely weather the US recession quite well.

Such companies tended to operate either in niche areas like medical related capital expenditure and electricity storage or within our existing favourite themes like power transmission and distribution. However, at this stage, we are not yet translating our findings into fully invested positions because we see the possible outcome from recent events in the US and in the banking and credit markets as binary. The impact of a negative outcome, we think, would outweigh the benefits of a positive conclusion by, in magnitude and time, a considerable margin. One of our prime objectives is to preserve capital and we therefore have raised slightly more cash since month end.

Oddly, we feel that the current status of 'not sure' is possibly the most dangerous, accompanied, as it is, by unpredictable forced liquidations from margin calls and huge volatility. Settling down to a proper bear market, by contrast, allows share price performance to become more discriminating of fundamentals. As we discovered during the Asian crisis, it is possible to make money in this environment. This could be the point where we begin to see Asia performing in a different pattern to the West.

Another positive factor is that regional valuations have certainly come down from the extreme levels seen in the autumn of last year. In some markets and sectors, valuations are, arguably, now beginning to look 'cheap' but not 'dirt' cheap. In the current climate, we feel that 'dirt' cheap is what we should be looking. This is especially so given we are still concerned about the sustainability of margins in many of Asia's industrial sectors as well as global demand. As a result, we are still sticking rigidly to our themes and industries where we feel earnings are the least vulnerable. At the same time, we continue to monitor our valuation data on investment opportunities with exposure to our favoured themes in the hope that entry points will emerge at levels at which we can justify re-entry.

Coking coal

We have reduced our focus on the more "heated" thermal coal stocks for two reasons. First, given that thermal coal spot prices have breached the magic US$150 per tonne level which we were forecasting last year, we view this as a clear signal that our expectations have now been met. Second, given the sensitivity of Governments to power prices, we are increasingly concerned that we may see increased Government intervention vis a vis both pricing controls and resource nationalism. While we still remain very positive on the prospects for the thermal coal sector, these are very real and unpredictable risks. Our attention is now therefore more focused on coking coal, a sector where, we feel, lie the greater opportunities and which carries less risk.

When we met Baosteel and Angang Steel in Beijing in January, we sensed that both companies were already starting to feel nervous about both the risingprice of coking coal and their capacity to secure adequate supply of coking coal. Since then, more evidence has emerged to justify their concerns.

First, a sell side analyst recently visited fifteen steel companies in China. Over half of them admitted that they were having difficulty sourcing coking coal. Second, there have been further temporary closures of coking coal mines in Shanxi on safety fears in response to the Linfen mine explosion, which killed 105 people. This has squeezed domestic PRC supply of coking coal. As a result, PRC coking coal imports are rising. Third, there is speculation that the PRC Government will now prioritize the transport of thermal coal for power stations ahead of coking coal for the steel mills. It will be interesting to see whether this further crimps China's already declining steel export volumes. We have on our recent trip heard from a number of sources that China may be importing steel again by the second half of 2008. Fourth, we have heard speculation that some of the Japanese steel mills have had to pay more than US$300 per tonne for coking coal versus the current contract price of US$220. This suggests that the Chinese mills are not alone in feeling the squeeze.

We therefore expect to see coking coal suppliers achieve considerable price hikes towards the end of March when the Shanxi Coking Enterprise Alliance negotiates 2008 prices. Given that steel prices are not capped in China, we do not expect the Government to intervene in the negotiations. Hidili in China and Indian listed Gujarat NRE Coke are the two miners which we feel offer the best exposure to the anticipated rising price for coking coal.

Plywood

Unlike many of its fellow plantation soft commodities like palm oil, corn and sugar, plywood prices have failed to participate in the soft commodity surge to the detriment of the ASEAN timber companies. The principal reason for this has been the collapse in Japanese housing starts. The Japanese housing industry is the key source of demand for ASEAN manufactured plywood.

In 2007, Japanese housing starts declined heavily as a result of the domestic construction industry's struggle to comply with a new, more complex set of building regulations. At their lowest point in September 2007, housing starts were down 44% YoY to below 1.1 million units, the lowest in forty years. As a result, Japanese plywood imports tumbled 18% YoY in 2007. However, Japanese housing start trends have already started to stabilize and channel checks suggest that plywood inventory levels at the Japanese trading houses have returned to more normalized levels of around 1 month only versus 2.5 months in November 2007. As of the latest data, housing starts in Japan were still declining YoY but at a much lower rate, down 5.7% in January. Were Japanese housing starts in 2008 just to return to the more normalized levels of 2006, this would imply a 20% rise YoY.

As a result, we are seeing the first signs of recovery in the plywood price. In the first two months of 2008, the plywood price rose 2-3%. Ta Ann management indicated last week that indicative prices have risen 6% MoM in March and that it is negotiating for a 13% MoM price rise for its next set of contracts in April. The share prices of many of the Malaysian timber companies like WTK and Ta Ann, the former trading below historic book-value and both trading on barely double digit current earnings multiples, do not yet appear to reflect any significant expectations of a recovery.

Hardwood

Hardwood, generally, is now showing signs of real shortage. A combination of, first, Russia ceasing to export raw logs and imposing an export tax which will rise from 7% to 80% by 2009, and, second, of an effective crackdown on illegal logging in Indonesia, has already seen the traditional pricing gap between softwood and hardwood narrow by 50% this year. We are hearing reports that furniture makers in Indonesia are closing due to lack of raw materials while Chung Hwa Pulp in Taiwan indicated that its imported raw material costs of hard wood woodchip, having risen 20% last year, are already on track to exceed this rise again in 1H 2008 alone.

Electricity and electricity storage.

In January a French test pilot achieved the first flight in a conventional light aircraft powered by an electric motor. The Electra, a wood and fabric single seat plane, flew for 48 minutes round the southern Alps, powered by a new generation of light weight lithium-polymer batteries.

Last November, the KillaCycle, a 600-pound motorbike powered entirely by lithium-ion batteries, crossed the quarter mile marker at Portland International Raceway at a record speed of 168 mph. The bike accelerates from 0 to 60 mph in just under a second!
This week in Taiwan, we learnt from a small manufacturer of specialist diodes used within electrical components inside cars, that all new car models now require twelve of its products rather than six before!

Electricity is the most efficient form of energy. Quite apart from clearly bringing to us the possibility of even more thrilling motor racing, it powers the universe, it runs our brains and it is being used increasingly as energy for transport.

This should provide a number of different investment prospects. Clearly, electrical components for cars will be a long term growth area. We expect that assemblies such as the drive train will switch from being mechanically driven to being electrically driven and that hybrid models will continue to grow market share. We saw a similar pattern in the 1990s in the expanded use of mi-

micro-motors were used to operate electric windows, wing mirrors, sun roofs and seat adjusters, all of which eventually became standard on most cars. As a result, the number of micro-motors used per car rose many times over. Inevitably, the key to success in this area will be the competitive environment. However, we expect that key materials and niche technologies will do very well.

Batteries

Electricity storage, we think, will become paramount. Batteries are a difficult area of technology. Lithium ion batteries, currently used in hybrid cars and in most laptops, can spontaneously combust when poorly made. New materials used in the separator-film component, which keeps the heat from spreading to where its not wanted, may help this. Another problem with batteries, in the area of transport, is the difficulty in achieving both speed and endurance. A new generation of ultra capacitors, which can discharge and recharge faster than a battery, may become commonplace alongside batteries. Ultra capacitors are ideal both for generating bursts of speed and for soaking up the energy collected by regenerative braking. Currently, ultra capacitors can only give about 5% of the storage capacity of a battery. However, alongside offering a solution to the problem of lack of speed and acceleration, ultra capacitors can also resolve another key problem associated with electric cars, namely the time to recharge batteries. Ultra capacitors, could, ultimately, we believe, become one of the 21st century's disruptive technologies.

Battery technology is also making further major strides. Stanford's Department of Materials Science and Engineering has indicated that it has developed a lithium ion battery capable of providing forty hours of usage by using silicon nano-wires instead of graphite as the battery anode. Up until now, the fourfold expansion of silicon as lithium is inserted has made it impractical to use due to fracturing. However, Stanford's solution rests in a sponge like network of nano-wires which expand but do not fracture.

Nuclear batteries are nothing new. A fist sized lump of plutonium has powered the Voyager spacecraft for twenty-five years and tiny specks of plutonium have powered pacemakers for decades. Now, nuclear batteries, the size of a hot tub, are being tested. Such batteries can generate more than 25 megawatts of energy for five years, enough to run 25,000 homes. They now also have sufficient safety features to make it virtually impossible for nuclear batteries to suffer a meltdown. They also have no moving parts, can be buried in the ground for extra safety and could be ready for commercial use within six years.

Power Grid

Lastly, increased electricity use leads us back to one of our favourite themes, the power grid. We revisited three of our preferred suppliers to the upgrading and replacement capex cycle that is taking place globally. We were not disappointed. The story was a similar one for all three. Fortune Electric in Taiwan, a manufacturer of transformers, is a good example.

Fortune's export sales, 30% of the total, are doubling every year with margins rising as the company picks and chooses customers and climbs the technology curve by introducing the more profitable high voltage products to its range. Additionally, the company is expanding into making amorphous iron transformers. This is a new product area which is becoming popular in countries which are building very long distance networks like China and India as they lose 30% less energy.

The Taiwan market is currently growing slowly. However, government plans in the pipeline indicate an ambitious project to build 188 new substations over the next eight years. This compares with 354 substations built over the past thirty years. We think that this is a pattern of demand not unique to Taiwan. This is why Fortune's order books are already full until 2010. As a result, we feel that this area is one of the few where we cannot see, even given a cataclysmic global slowdown, that spending can slow that much. If it does, the lights will simply go out. Barriers to entry are surprisingly high and companies operating in this area therefore offer one of the most robust growth outlooks together with secure margins in today's uncertain world.

Japan

We heard talk of Japan more times in three days in Taiwan than in the previous year's visits put together. First, a number of Taiwanese companies are looking to buy Japanese businesses based in China. It seems, culturally, that some Japanese companies are struggling to adapt to Chinese business practices and conditions. However, we think that a combination of Japanese standard products and Taiwanese business savvy might do rather well in China.

Second, we learnt that Japan Steel, which otherwise makes Samurai swords, is the only company in the world which can make a nuclear reactor containment vessel in one piece. This would seem a useful safety feature. Japan Steel currently makes four such vessels a year and is nervously pondering expanding its production to eight a year having suffered a number of loss making years in a row. Current estimates of future demand stand at around ten vessels per year. This either means there will either be a few more nuclear power plants to which we would all be reluctant to live next door to or Japan Steel's fortunes might be about to turn upwards.

Third, amorphous iron, as used by Fortune Electric in its new generation of transformers, we gathered, is also only available from one company in the world, Hitachi Metals. There is a glint of something interesting here. Many deride Japanese companies, citing their obsession with owning the whole supply chain, their overly cautious approach, their inability to grow profitability and their restricting adherence to their own culture. However, we think that many Japanese companies possess an artisan culture of perfectionism and craftsmanship. They look to manufacture difficult and complex products, built to last, and which, sometimes, possess unique characteristics. We think that the throwaway and greedy model of built in obsolescence, designed to generate fast profits, is neither green, nor desirable nor especially clever in today's world. Among other things, Japan is the country where five of last year's top ten bestselling novels were written on a cell phone and where confidence in their craftsmanship allows them to sell unbranded garden secateurs for £400. Frustrating? Yes. Crazy? Maybe? But something is twitching…

Cash

Given the recent news, we would like to reiterate that, since launch, all cash held in the fund is put on overnight deposit, daily at a minimum of seven and, sometimes, up to ten different financial institutions. The minimum requirement is five. We use mainly commercial banks and names we have agreed within the partnership which are of the highest quality.

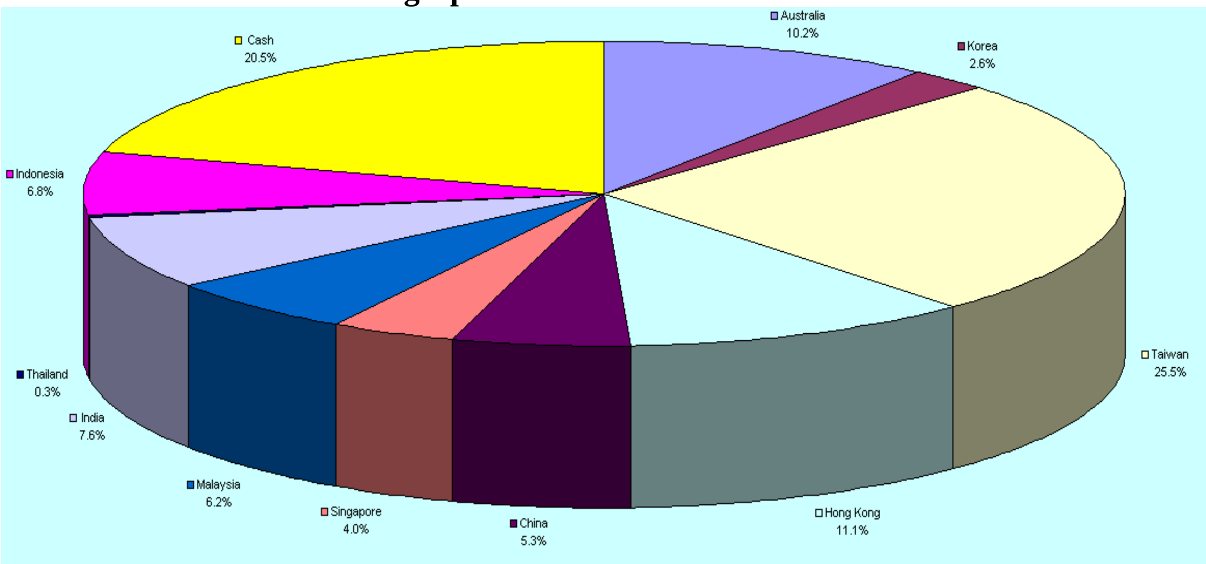
The portfolio trades on 18.5x 2008E earnings and 14x 2009E earnings, is forecast to enjoy 32% earnings growth into 2009E and to earn an ROE of 21%.

Heather is in Singapore this week.

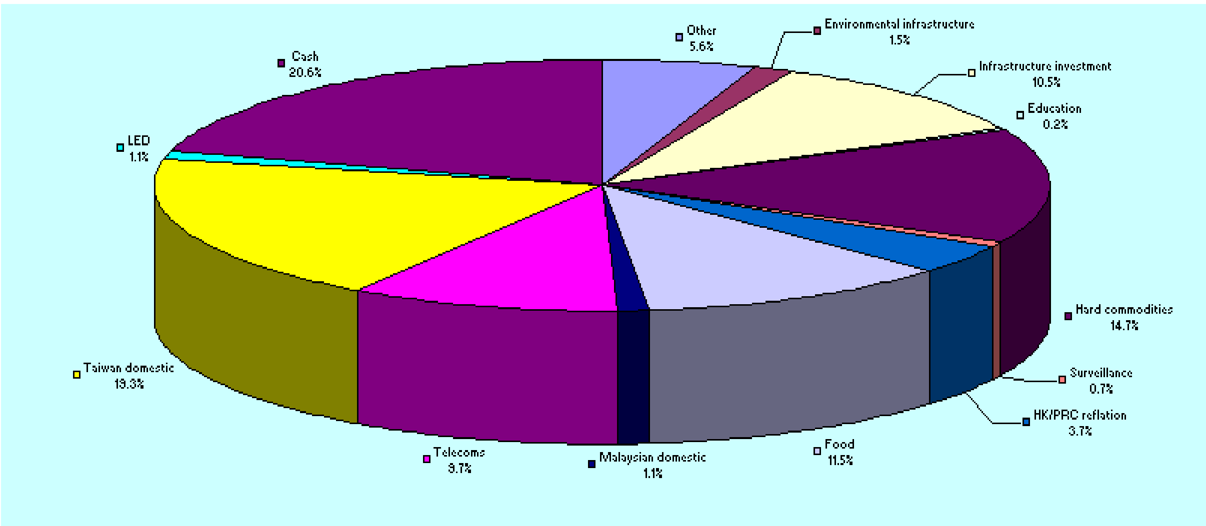
Top 5 Holdings	%
CSR LIMITED	3.9%
CHUNGHWA TELECOM CO LTD	3.5%
ICSA INDIA LTD	3.4%
HIDILI INDUSTRY INTL DEVELOP	3.3%
TATUNG CO LTD	3.2%

Number of holdings 42
Percentage of Fund invested 79.5%

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	6.91										

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

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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