Prusik Asia Fund Plc

FSA Authorised
Recognised Schedule 5

Prusik Investment Management LLP

An Independent Asian specialist investment manager

NAV Updates

Series	*28th February '07*	*MTD*	*YTD*
Class A	147.66	+1.28%	1.27%
Class B	147.66	+1.28%	1.27%
Class C GBP	79.78	+1.31%	1.45%

Fund Size $241m

NAV Update	**28th February 2007**
Class A USD	
Non distributing	USD147.66
Class B USD	
Distributing*	USD147.66
Class C GBP	
Distributing*	GBP 79.78

In February, the fund NAV rose 1.3%. Our cash weighting remains fairly high in the face of general valuations across the region which are still not as attractive as we would like to see before investing fully again.

The volatility which has entered markets in recent weeks has been a little uncomfortable for us, most notably in the Hong Kong and China elements of the portfolio. However, we had already reduced some of our exposure here. We are pleased to see that many of our themes and stocks either held fast or performed well, providing the hoped for insulation against the inevitable swings in the more economically sensitive sectors.

For example, the carbon fibre stocks have done well with all three holdings up over 10% since the start of February at the time of writing. This includes Formosa Plastics, which is our largest holding. Similarly, Doosan Corp, which owns Doosan Heavy, a builder of desalination and nuclear power plants under new management, has risen over 30% in the same period. CSL, an Australian healthcare company, continues to go from strength to strength driven by impressive cost control and better than expected sales from its new cervical cancer vaccine, Gardasil.

Our visits to Asian companies both in London and Asia tell us that corporate and domestic Asia is still benefiting from a buoyant environment. There is little anecdotal evidence yet of headwinds save for a possible margin squeeze in some areas where input prices are rising. Nonetheless, we are well aware that there are mechanisms at work in non equity markets, generally outside of Asia, the implications of which we cannot perhaps as yet fully understand and which potentially threaten the 'stable disequilibrium' and abundant liquidity supply within which we have been operating for some time. In addition, and in contrast to the pattern seen in the Spring of 2006, we sense that the markets have yet to suffer from extensive selling pressure. The mood appears to remain, at least partially, one of denial.

Rare earth

Last month, we wrote about Australia's move to banish incandescent light-bulbs by 2010. Merely a month later, we find the EU in hot pursuit. The LED related stocks have, needless to say, performed well on the back of this news. However, it has been a fairly volatile experience as stock valuations are beginning to reflect a wider understanding of this theme. Consequently, we have been continuing to look for other companies which will benefit from this trend but also offer better value. As a result, this month, we have included China Rare Earth in the portfolio.

Rare earths are 15 minerals which occupy the nether regions of the periodic table. While rare earths are fairly abundant in the earth's crust, they are difficult to access. Around 95% of the world's mined production currently comes from within China. Mt Weld in Australia is the only other significant Global resource.
Rare earths are increasingly in demand. They are used in car catalytic convertors, hybrid car batteries and in the manufacture of compact fluorescent light-bulbs (CFL) as well as being increasingly used in the miniaturisation and improved efficiency of electrical goods. Last year, it is estimated that global demand for the various rare earths grew between 10% and 60% and this trend looks likely to accelerate. For example, the industry believes that each CFL consumes approximately 0.5g of heavy rare earth, Europium. Europe is thought currently to consume 2 billion standard light-bulbs per annum. If these were gradually replaced by CFLs, this could lead to a future demand for up to 500 million light-bulbs a year, reflective of CFLs' four to five times longer lifespan. This would equate to 250 tons per annum of additional demand for Europium. This is equivalent to the entire global demand in 2005! If the US was to follow suit, California is already on the way, demand for this material could double again.

What is interesting about Chinese production of rare earths is that in recent years the Government has sought to control output of these minerals. Total production is actually likely to fall in 2007 by around 5-10%. This has already led to some fairly impressive price increases which are unlikely to abate. However, such price rises are not likely yet to lead to changes in the supply side of the equation. For economically viable production in the US to resume, prices of rare earths would need to be ten times today's levels!

China Rare Earth is China's number one processor of rare earth and rare earth products, handles all 15 of the minerals and includes among its customers, companies such as GE and Osram. The Chinese Government is explicitly encouraging the company to move further into higher margin processing and downstream products. Returns are therefore likely to be further enhanced above and beyond the strong pricing environment from which they are already benefiting. We conservatively estimate that earnings can rise by 30% per annum for the next two years. However, the stock still trades on a 2008 PE of just 5.8x.

Minority report

One of Prusik's philosophies is to invest in opportunities where the interests of the fund investor and the management of the companies in which we have invested are aligned. Over the years, we have discovered that the management of many Asian companies we visit has found it difficult to provide a clear explanation of the hurdles or measurements on which their performance is judged, or, put more simply, to tell us what their key objectives are. However, positively, we think that this is changing. The inflows into the region of private equity style activist investment managers appear to be accelerating that transformation.

For example, the Kumho Group in Korea purchased a 35% stake in Daewoo Engineering & Construction last year. Kumho lacked the financial resources to acquire a larger stake in the company. Kumho therefore invited a group of investors to take a further 30% stake in Daewoo Engineering and guaranteed those investors a 9% per annum return on their investment. We already liked Daewoo Engineering because of its expertise in nuclear power plant construction and related infrastructure roll out in the region. Kumho's guarantee provided a further attraction. We calculated, based on our entry price, that Daewoo Engineering's share price needs almost to double over the next three years in order for Kumho to meet its guarantee. The management of Daewoo, very much under Kumho's control, will need to work hard to achieve those targets. The result - management is already considering share buy backs, has raised the dividend and is starting to sweat Daewoo's large and, in our opinion, under-utilised asset base. We are not advocating aggressive shareholder activism. However, in the case mentioned above, the interests of Daewoo management and of all Daewoo's shareholders are becoming aligned.

Another example is China Hongxing Sports. China Hongxing raised capital via the issuance of RCPS. Within the terms of those RCPS, China Hongxing has to meet rising net profit after tax targets between FY12/06E and FY12/08E. Failure to meet those targets would result in penalties. In the case of Hongxing, management has been able to articulate exactly how it intended to meet those targets. So far, Hongxing has exceeded the targets set. FY12/06 NPAT, at around Rmb 225m, came in 25% ahead of the Rmb 180m target, and the company looks to be on track to beat the next target. We are happy shareholders.

This phenomenon is not widespread yet. However, we think that this trend is on the increase. This can only be good for investors in the region, as, Asian companies' treatment of minorities still ranks alongside those of Japan as being among the weakest globally.

Pricing Power

We make no apology for leaving macro economic forecasts to those better qualified than us but we do pay attention to anecdotal evidence around us. There are a few snippets which have caught our eye in the last couple of weeks and follow on from the comments we made on food prices last month.

Perhaps the most striking trend has been the turnaround in exported deflation from China. From 1995 to 2003, in US$ terms, export prices fell, on average, 2% per annum. However, more recently, prices have been rising some 3% per annum. This is a trend we expect to continue and possibly to increase. Naturally, the stronger RMB is in part to blame. However, the Chinese Authorities are also making strong moves either to protect or to achieve better returns on domestic resources like, for example, rare earths as described above. This week, the PRC Authorities announced a restriction on the export of sandstone, used in the manufacture of ready mixed concrete. This follows an identical move earlier in the month by the Indonesian Government. This has already resulted in concrete prices rising by between 15% and 20% in neighbouring countries . This, together with China's recent 3% reduction in steel export tax rebates, means building costs in the region will rise sharply from here.

India, recently imposed an export tax on iron ore exports of 5%, designed to reduce exports and to keep domestic prices steady in the face of a recent WPI number of 6.3%. China is now pricing export coal at South African prices, i.e. inclusive of transport costs. as part of her continuing efforts to retain her resources for domestic use.

The environmental cost of doing business in China is also rising. China Everbright, which has a sizeable water treatment division, indicated that a recent Government directive dictated that new industrial plants in China must now use recycled water rather than fresh water. Recycled water costs RMB2 per cubic metre. This will no doubt make its way into end prices.

Finally, the chief executive of Stadium Group, a small UK maker of electrical products, the exact nature of some of which we hesitate to elaborate on in these delicate pages, the curious should ask Ed, with manufacturing based in China told a small investment meeting last week that, for the first time in 18 years, the company will be raising prices. The CEO stated that there are no more efficiency gains to be made to offset margin erosion.

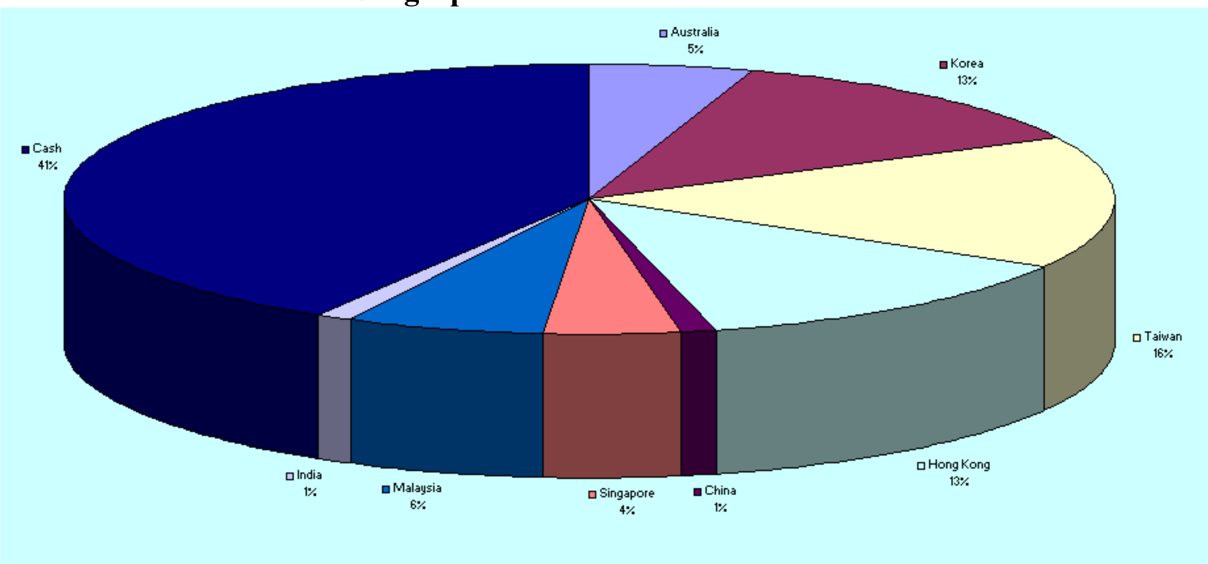
Portfolio

The portfolio is trading on a PE of 11x 2008E earnings with 21% earnings growth forecast for that year and generating a ROE of 21%.

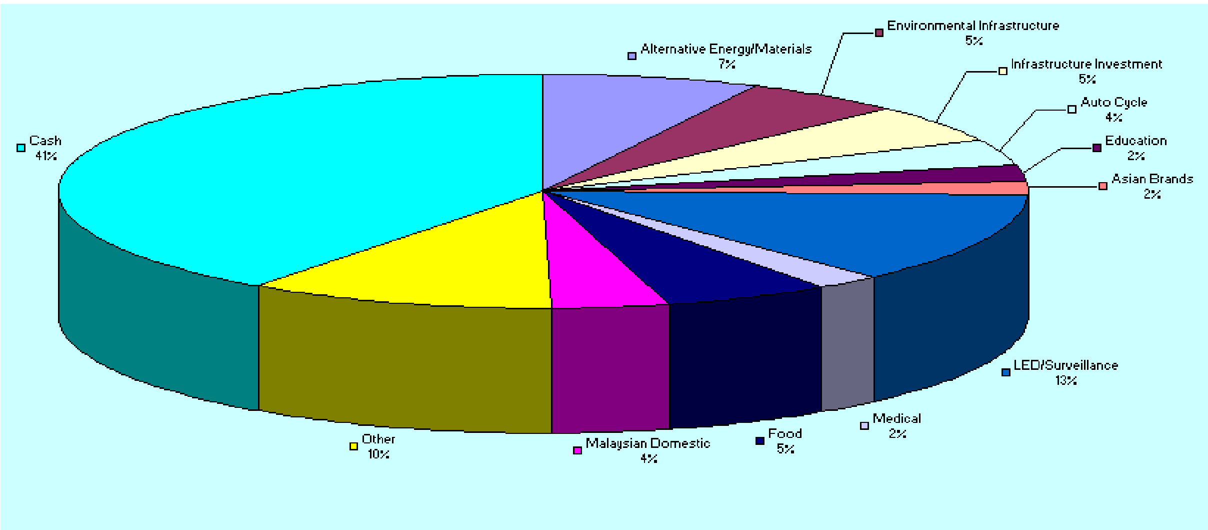
Top 5 Holdings	%
FORMOSA PLASTICS CORP	4.5%
EPISTAR CORP	3.4%
EVERLIGHT ELECTRONICS CO LTD	2.8%
HYUNJIN MATERIALS CO LTD	2.6%
CSL LIMITED	2.3%

Number of holdings	38
Percentage of Fund invested	58.5%

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										

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.