Prusik Asia Fund Plc

FSA Authorised
Recognised Schedule 5

Prusik Investment Management LLP

An Independent Asian specialist investment manager

NAV Updates

Series	*August '07*	*MTD*	*YTD*
Class A	171.68	-3.75%	17.74%
Class B	171.71	-3.72%	17.76%
Class C GBP	92.45	-3.74%	17.56%

Fund Size $403m

NAV Update	**August 2007**
Class A USD	
Non distributing	USD171.68
Class B USD	
Distributing*	USD171.71
Class C GBP	
Distributing*	GBP 92.45

Given especially turbulent stock market conditions in July and August and knowing that, as September begins, everyone will be back at their desks and wanting the latest information, we hope you will forgive us for combining two months of reports into one and, thus, bringing our reporting completely up to date.

During July the fund rose 3.77% and in August the fund fell 3.75%. In July, markets rose in euphoric fashion only to be swiftly punished in the final days of the month. Our company valuation targets flashed first amber and then red. Even on our best case scenario forecast earnings, our country watch list average 2008E PERs ranged from a low of 14x to a high of 30x. Our portfolio average PE also rose to new highs.

For much of July, holding a heavy cash weighting was uncomfortable. However, in August, in rapid succession, our decision was, initially, proven correct, and, then apparently wrong. Our full month performance numbers for August do not therefore provide a complete picture of the fund's performance during the month. Positively, the fund's value did not decline sharply in line with the index in the early part of the month. However, unfortunately, we did not enjoy the full benefits of the rebound in markets later in the month. As a result, positively, our 100 day volatility now stands at only 10.5% versus the market average of 24.0% and our 30 day volatility at only 10.9% versus the market average of 39.5%. Importantly, we also have the chance carefully to examine bottom-up opportunities in the light of what may be a slightly different future operating environment and to build a portfolio that can, accordingly, perform strongly in such altered conditions.

The Asia ex Japan index now lies less than 6% below the level seen at its July peak and top-down and bottom-up valuations, with a few exceptions, do not look significantly more enticing a month on. Justifiably, perhaps, most of the more attractive value opportunities appear to lie among the smaller, less liquid companies and in the politically more vulnerable countries. We certainly wish we had taken greater advantage of the short period when the markets traded at recent lows in August. However, we still feel uncomfortable about the rationale which justifies a 10% plus rally in five days.

We want to be very clear, at this point, that nobody could be more enthusiastic about the medium and longer term opportunities in Asia than we are. Due to the long term effect of the Asian crisis, Asian companies and banks are, in general, better capitalised and better managed than ever before. Corporate ROEs have increased dramatically. This has justified higher valuations and has, therefore, sustained, in logical and fundamental fashion, rises in the share prices of those companies which have achieved such higher returns. We can look forward to a new, and likely very exciting, phase as Asian consumers begin to unleash their considerable savings on the domestic economy. This trend will be aided, most likely, by an expansion in consumer debt. In addition, Asian economies and companies are already benefiting from the impact of enormous, on-going, State-driven infrastructure spending programmes. This is especially the case in China and India.

However, we think it would be overly optimistic to assume that all the benefits will be delivered, neatly and in one fell swoop, to investors on a silver platter, however attractive such a scenario might be. The last few weeks have shown that, while the possible immunity of Asia's economies to a global economic downturn is still to be tested, a 'decoupling' of Asia's stock-markets from global trends has been out of the question so far. Globally, investors' ability accurately to measure the impact of events unfolding in the credit markets and the resulting implications for global economic growth are still limited. We are still at an early and vulnerable stage when visibility is still lacking. We would prefer, therefore, at this stage, perhaps, to inject a little too much realism and caution into our views rather than too little. After all, we have promised to invest with the objective of making as high a return as possible within an acceptable level of risk.

In the meantime, we can 'look forward' to the US Authorities providing increasing support towards and intervention and regulation in many aspects of the banking and fund management industries. The degree and nature of that support will ultimately determine the extent, or not, of the economic fallout of recent events. Until we have a clearer picture of the nature of this intervention, we think that some caution will still be warranted and some patience could be required.

To that end, we shall reinvest slowly. Themes and companies which we truly believe have no drivers dependent on US economic growth appear to offer the most attractive investment opportunities at this stage. Positively, we continue to find a number of interesting bottom-up stories, notably, the continued rise in demand for education services in Korea, rapid expansion in the demand for 'intelligent' electricity transmission and distribution networks in India, further investment opportunities in healthcare and care for the aged and further evidence to support our expectation of rising foodstuffs inflation. We shall also be searching for companies with no need to raise further equity in the near future.

'Fortress China'

Most commentators appear still to be sticking to the view that Asian growth remains immune to a slowdown in the US or indeed to the current turmoil in the credit markets. This belief seems to be especially strong with regards to China's growth trend, bolstered by the resilience of China's stock markets in the face of recent turbulence.

As to the immunity of China, we are reminded of the late 1980s when the star stock market of the era was marketed as 'Fortress Japan' because of its indestructible internal momentum. The stock market seemed to follow its own trajectory as the Japanese market shrugged off minor concerns like the 1987 crash. However, we all know what eventually happened.

In the short term, the positive effect of China's apparent economic boom is spreading to Hong Kong as the SAR's stock market eagerly anticipates the arrival of mainland QDII money in pursuit of the more attractively valued, HK-listed H share and red chip listings, PRC corporates with which mainland investors are familiar. This caused the combined market capitalisation of 'China', i.e. mainland listed A shares and Hong Kong listed China shares, to surpass the market capitalisation of Japan for the first time this week.

However, perhaps, we are in the final stage of the long, China growth inspired rally. In the immediate future, with the Olympics looming next year, we expect that the PRC Authorities will be keen to support policies and initiatives which ensure that the PRC economy can sustain its current rosy glow. Given the strength of the consensus positive view on China, we have been looking to see if there might be any cracks emerging. We think that there are a number of potential problems, two of which have already resulted in the emergence of powerful and profitable investment themes which have yet to mature. The economic impact of those themes may be more double edged.

China's environmental bill

First, the scale of China's environmental problems continues to be shocking. Having already damaged the environment and choked the local population, these problems now may be also capable of damaging and choking the economy. There is a joke doing the rounds in China that if you wish to know which colour will be in fashion next season, all you have to do is to look at the colour of the water in the rivers.

Currently, of course, the Authorities are driving an extra-ordinarily vigorous campaign to clean up the local environment ahead of the 2008 Olympics. However, while the PRC Government delivers edicts from above, the local reality is left wanting. Fines are introduced but are lower than the cost of implementing cleaner processes. Filters and scrubbers are fitted but never used other than during inspection time. Endemic corruption allows the law to be circumvented. In short, the system appears to be unable to implement what is required either quickly or efficiently.

Several recent studies have put the cost of China's environmental degradation and pollution at between 8% and 12% of GDP per year. Even the Chinese media occasionally publishes estimated costs of the impact of pollution on agriculture, industrial output or public health. For example, water pollution, according to the China media estimates, costs around US$35.8 billion per year, air pollution around US$27.5 billion and acid rain around US$13.3 billion. The forecasts are even more sobering. According to the International Energy Agency, unless China adopts environmentally friendly technologies, within 25 years, China will emit twice as much carbon dioxide as all the countries of the OECD combined.

The nub here is that improving the environment in China is essential in order to maintain strong growth. However, significant improvements to the environment also seem to require further reform of the country's political culture to engender greater transparency, official incentives and accountability and to develop a more independent legal system. No such developments seem probable any time soon. Nevertheless, it still seems likely that, while the environmental clean-up will continue to generate interesting investment opportunities, it will also cause some upward pressure on the cost of production. The higher risk is that the failure of the Chinese Authorities to tackle the country's environmental problems may lead either to local social discontent or to international eco-political tension.

China's insatiable demand generates shortages

The second impact of China's strong economic growth is the generation of rising demand and rising prices on a global scale for many basic materials. For example, coal provides about 70% of China's power needs. China consumed about 2.4 billion tonnes in 2006; this was more than the USA, Japan and Britain combined. In 2000, China anticipated that its coal consumption would double by 2020; China's coal consumption is now expected to have done so by the end of this year. Forecasts suggest this type of trend will continue. China's political leaders, for example, plan to relocate 400 million people, equivalent to almost the entire population of North America, to cities between 2000 and 2030. In the process, China will erect half of all the new buildings expected to be built in the entire world over that period. The net impact of this rise in demand should be soaring prices for all the goods required to construct such projects. This provides exciting investment themes but potentially more challenging macro economic developments. Perhaps the most emotive area where China's rising demand will affect us all is food. As we discussed a year ago, China is poised to start importing wheat, the price of which has risen to new highs this week. This week, for example, the China Daily quoted a number of academic sources in China who predicted that China will need to import an additional 100 million tonnes of food by 2030. This is due to urbanisation, falling crop yields due to climate change in the order of 5-10%, and rising demand due to population growth.

Collapsing deck chairs

The third impact of China's strong growth has been the well documented scares over the quality of goods coming from China. From lead paint on die-cast toy Thomas the Tank engines to faulty tyres and collapsing deck chairs, this summer has seen a litany of public recalls of PRC manufactured consumer goods. The explanations vary. On the one hand, supply chains are long and corrupted. Reportedly, in a new glossary of Chinese business terms, 'research, research sounds just like cigarettes and liquor!' On the other hand, costs like raw materials, energy, water and waste disposal, as described in these pages over many months, are rising for manufacturers who are in the grip of ever more demanding customers who refuse to bear price increases or relax delivery times. In the face of fierce competition for such products, PRC based light manufacturers appear, often, to be resorting to any measure which allows them both to comply with their customers' demands and to sustain historic levels of profitability. Such measures potentially start with the failure to pay employees on time and the introduction of mandatory overtime, all quite normal these days, and end, in desperation, with the reduction of quality.

It is worth noting that, currently, the US press appears to be carrying fiercely anti China articles almost every day. The 'beef' appears mainly to be linked to ecological issues. However, the subtext may be a little more sinister. The risk is that China starts to fight back and tit for tat protectionism hots up. We have already seen the PRC Authorities return a consignment of soya beans to the US, under the pretext that the consignment contained too many pesticides, and a batch of faulty pacemakers.

As food for thought, we recommend reading 'A year without Made in China' by Sara Bongiorni. This is not an anti China book but an entertaining way of illustrating that Chinese made products pervade so many areas of our daily lives that even the tiniest reduction in global consumer demand will likely affect somebody, somewhere in the First Country under Heaven.

Sovereign wealth funds
Government intervention in financial markets is pretty much a daily phenomenon these days. It is like setting out to row the Atlantic alone after a lengthy period of dedicated training only to find that, in reality, you are appearing in 'The Truman Show'. We think that we will all need to become better accustomed to such intervention. Globalisation and the free movement of goods, capital and people have been jealously protected as an ideal by Governments. However, we think that many Governments are now poised, possibly, to find themselves returning to the debate with the proliferation of so called Sovereign Wealth Funds.

These vehicles, funded by currency reserves and oil revenues, are what allowed a PRC Government-linked fund to buy a US$3 billion stake in Blackstone and, possibly, to be active in the Hong Kong market over the last few weeks. Morgan Stanley estimates that the value of such funds could reach US$12 trillion by 2015 or almost the size of the US economy. Morgan Stanley also believes that, over time, such funds will lead to a decrease in the demand for bonds, thus raising average bond yields, and increase the demand for equities, thus raising risk tolerance and therefore equity valuations on the way.

Singapore has the second largest sovereign wealth fund after the UAE and has built an enviable track record by searching the globe for assets capable of generating solid financial returns which cannot be found at home. China, South Korea, Brunei, Taiwan and several other Asian and Middle Eastern governments are all planning to do the same.

The question is, will the US sit idly by if, say, China goes shopping in Silicon Valley? What about investments in key resources companies? While the arguments against trade protectionism are clear, the pros and cons of resisting foreign capital are less so. Of course, if these funds perform badly then, gradually, assets will be deployed elsewhere. However, we think it more than likely that such funds will become a massive but opaque force within global stock markets and, perhaps, once more, challenge the ideology of globalisation.

Learning English
Our recent visit to Korea provided a textbook review of the positive developments of which we were aware. So far, so good.

However, we would have preferred to learn about positive developments of which we were not aware. One area which stood out was education, where Koreans spend over 13% of disposable income on supplementing their own and their families' schooling. Credu already dominates the adult education market and, benefits, in particular, from tax incentivised spending by companies on training staff. Credu is now moving into the very lucrative and fast growing area of teaching English. Its relatively new oral English testing scheme, for which it has exclusive rights for the next ten years, is becoming the national standard for companies wishing to employ English speakers. A slew of online educational courses to support its new English testing scheme should boost revenue and profits considerably. Learning English, despite the protestations of those who are frantically employing Mandarin speaking nannies to educate their young in the 'language of the future', (when we were growing up, it was Japanese), still seems to be a major differentiating factor behind a country joining the ranks of first world economic success. On this note, Vietnam is worth watching as all children there are taught English from the age of six. In spite of the emergence of the dreaded 'sophisticated investor relations' function, most of our meetings in Korea were still conducted via translators. It is clear that the demand for English speakers in Korea is rising to a crescendo. We really like the management of Credu. Positively, we think the company should be able to beat the anticipated 24% CAGR in market demand through to 2010 and its share price trades at a discount to its regional peers. Credu also appears to have a very well capitalised balance sheet, of which management are aware. We believe that we can expect the company to announce of a number of new investments within the education field to remedy this before long.

Indian power

Two months ago we commented on the huge amount of power generation capacity India was due to install over the next five years. This was on a comparable scale to the capacity installed over the last fifty years. Within the last two weeks, the target for new power capacity installation has been raised from 50 GW to over 60 GW. Alongside this, we note, from an interview with a multinational equipment supplier, that Europe is also due to install or replace between 120 and 160 GW of power generating capacity by 2012. This is double even India's targets. We still wait to see confirmation of the scale of China's plans to replace her existing generating network with more environmentally friendly capacity; we hope most. We can therefore clearly see a surge in demand for power generation and grid related equipment, and also, we think, for coal to power the new capacity.

As well as building new generating capacity, the Indian Authorities are also desperate to reduce grid loss. Elderly transformers in India are one of the key culprits behind sustained 'technical' transmission losses. Aged transformers, made by local manufacturers with limited technological expertise, continue to leak power. The Advanced Power Development & Reform Bureau of India estimates, that these 'technical' transmission losses, combined with losses resulting from theft, could, between them, result in losses of as much as 40% of power generated at a cost of over US5 billion per annum. In order to check these losses, the Authorities are offering sizeable incentives. Every Rupee a provincial grid saves by addressing power losses will be matched by

½ a Rupee contribution from the State. In order to recognise the source of the losses, grids need the required investment to become more 'intelligent'. Energy audits, also, have become commonplace in India creating a further incentive to upgrade systems. Calcutta Electric, which owns both the electricity generating and transmission and distribution assets in Calcutta, has reduced its costs by 40% over the last four years by addressing issues such as these. Calcutta Electric is an early mover.

The fund is invested in a range of companies which are taking advantage of the huge change occurring in this sector within India. Our longest standing holding has been Crompton Greaves. Transformer manufacture is not hugely capital intensive but, in order to produce a high quality product, experience and technical know-how is paramount. Crompton's technical tie up with Toshiba has enabled it, locally, to produce high capacity transformers (765 KW) which halve electricity losses in comparison with 240 KW transformers. Crompton's reputation as a brand to trust is rising. Crompton is now ranked alongside Siemens and ABB in India. In the field of energy audit, we believe that we could have found a company with more potential for share price appreciation than our old environmental engineer in Korea, Korea Cottrell. It designs software for meters and other measurement devices which can be implemented across the whole grid. It has also recently seen success in the utilisation of its systems to monitor oil and gas pipelines. Its top line growth trend appears to have currently typical Indian characteristics, i.e., annual growth of around 100% or more and the company's CEO believes that the market is big enough already to accommodate eight to ten new entrants without crimping the incumbents' margins. This, perhaps, sums up just how favourable is the current balance between supply and demand within India's power distribution and transmission equipment supply sector. Given our belief that, first, infrastructural constraints are the biggest risk to India's growth prospects and that, second, it is maintained high levels of growth which allows Governments to retain power, the incentives being offered in the power sector to expand capacity and raise efficiency appear logical.

We continue to add to our exisiting investments which include more metering companies and power financing companies.

Frozen peas

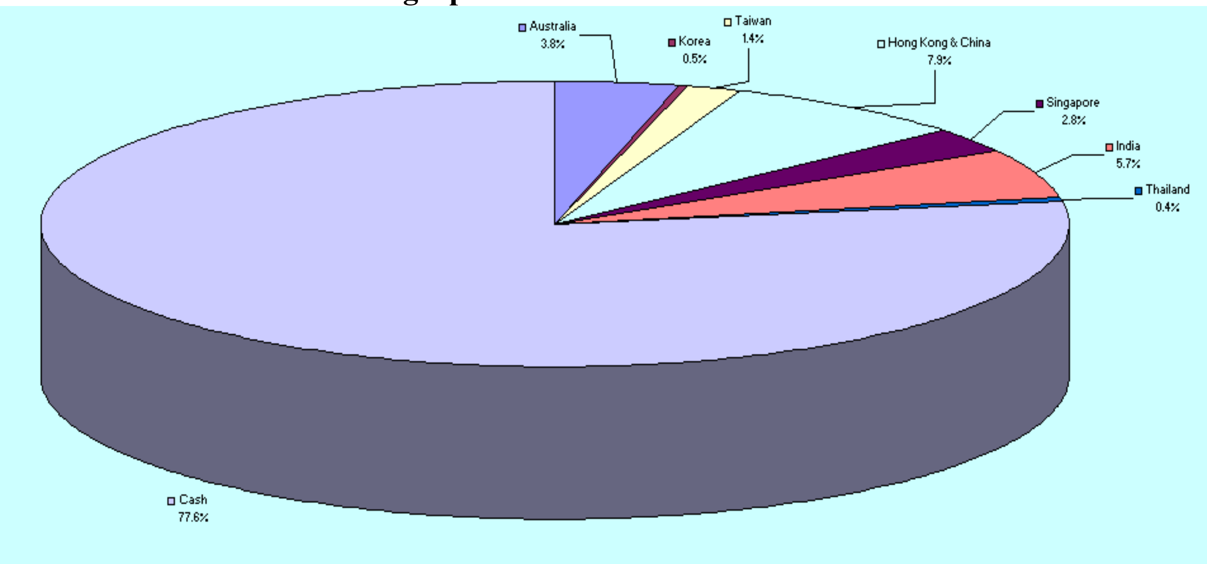
In the UK and Europe, it is becoming painfully clear that, due to this summer's lack of sunlight and excess of rain, vegetable crops have suffered badly. Some crops are as much as 30-40% below the norm. In addition, winter planting has also been delayed by six weeks. This suggests that a similar magnitude of shortage could continue into the winter vegetable season. In some product areas, such as frozen peas, it is expected that by spring there will be a downright shortage, with all European based processors required to source from non-traditional markets. This is potentially great news for our China based vegetable growers like China Green. However, it is not such good news if you are a big fan of mushy peas with your chips. If you can find them, they will cost rather more than before.

Ed visits Hong Kong and China in September.

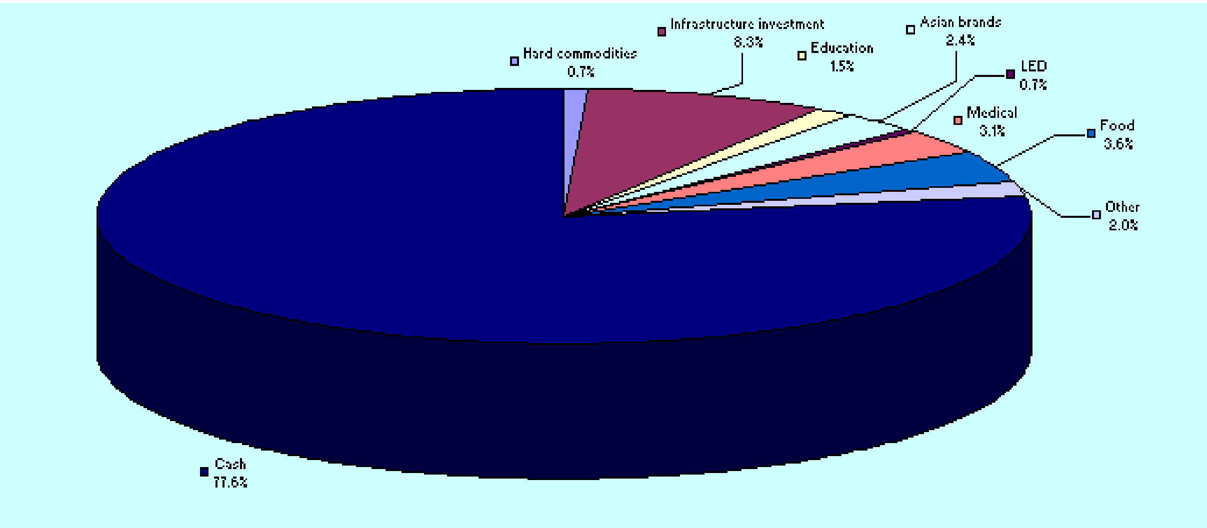
Top 5 Holdings	
CSL LIMITED	2.2%
ICSA INDIA LTD	2.1%
CHINA MOBILE LTD	2.1%
HARBIN POWER EQUIPMENT CO-H	1.8%
CHINA FISHERY GROUP LTD	1.3%

Number of holdings	22
Percentage of Fund invested	22%

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				

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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