Prusik Asia Fund Plc

FSA Authorised
Recognised Schedule 5

Prusik Investment Management LLP

An Independent Asian specialist investment manager

NAV Updates

Series	*September '07*	*MTD*	*YTD*
Class A	181.41	5.67%	24.42%
Class B	181.44	5.67%	24.43%
Class C	GBP 97.63	5.60%	24.15%

Fund Size $427m

NAV Update	**September 2007**
Class A USD	
Non distributing	USD181.41
Class B USD	
Distributing*	USD181.44
Class C GBP	
Distributing*	GBP 97.63

The fund rose 5.7% in September. This occurred against a backdrop of stock market moves reminiscent of the fourth quarters of either 1993 or 1999. Such moves were difficult to justify but hard to ignore. The Hang Seng Index, to take one of the more extreme examples at the time of writing, now stands 25% above the level at which we sold in July. In retrospect, we wish we had made more of the fleeting opportunity in mid August, a point at which the MXAPJ index had declined 18% from its then high. However, the valuations, even at that point, were not low, in particular in comparison with historic levels. Nevertheless, in hindsight, we were too cautious. A succession of events has gripped stock markets and generated a wild dash towards stratospheric levels. Unfortunately, the impact of some of those events cannot be adequately captured by our traditional bottom up approach. The key factors appear to be as follows:

First, the recent moves by the Federal Reserve and the European Central Bank have made monetary conditions very easy. The Federal Reserve's decision to cut interest rates by 50 basis points appears to have led markets to assume that the Federal Reserve is prepared to act vigorously to soften the impact on the US and global economies of any potential economic problems. This has sustained investor enthusiasm globally. Second, we think that the decisions made by the Federal Reserve have led the market to expect significant further weakness in the US Dollar exchange rate. As a result, this has spurred investment in non US Dollar assets in Asia. Traditionally, under controlled conditions, US Dollar weakness has been positive for the liquidity environment in Asia, if not for export led companies operating in currencies which are not directly pegged to the dollar. Third, the Chinese Authorities have indicated that they will allow local investors to invest overseas. This has generated a perception that the valuations of shares in mainland Chinese companies listed on the HK, Singapore and even US stock markets could be driven upwards by PRC-based retail investors who appear to have little experience of investing throughout a full economic cycle and, as a result, seem to place little weight on traditional stock market valuation parameters. Fourth, so far, we have seen no indication from companies in Asia of any signs of deterioration in their operating environment. This has, broadly, been interpreted as positive. Fifth, given the rise in macro-economic risk to both the United States and Europe as a result of the uncertainties in the sub-prime mortgage markets, Asia appears to have been universally voted the region with the strongest and most domestically oriented growth outlook by foreign investors.

We see merit in many of the arguments outlined in our previous paragraph. However, we also feel very confident that the sustainability of increasingly rich share price valuations will soon begin to be debated. It is conceivable that this debate will not reach critical mass until the discount between mainland listed A share Chinese equities and HK, Singapore and US listed shares of mainland Chinese listed companies has entirely closed. This implies upside of around another 50%. At the current rate of progress, such a circumstance could be only a few weeks, at most a few months away. In the meantime, we do not think that Chinese equities, at current valuations, are priced to withstand any significant rise in perceived risk.

For example, UBS recently forecast a 2008 based FV target of 28,000 for the Hang Seng Index in Hong Kong, a level which, by October 2007, it had already exceeded. At 28,000, the Hang Seng Index would be trading, based on UBS' current pre-exceptional earnings forecasts for 2008E, on a PER of 18.7x. This is a 26% premium to the 34 year average of 14.9x current earnings. Positively, many HK listed companies, when reporting 1H 2007E earnings, have exceeded expectations. However, unfortunately, a significant proportion of their better than forecast earnings appears to be due to stronger than forecast contributions from stock market related activities.

We note other warning signs too. Aside from the re-appearance of 'Zaitech', the boosting of profits through the appreciation of share holdings in other listed companies, which was first seen in Japan in the 1980s, we now, regularly, see analysts 'blue sky' forecasts. Elaborate, long-dated DCF based valuations have also re-appeared as have built in expectations on future asset injections and transactions. The average first day 'surge' for an A share IPO rose from 85% in 1998 to 196% in 2007. In August and September 2007 to date, first day surges have accelerated to 333%!

Overall it seems, therefore, that we are in truly exceptional circumstances. In the short-term, possibly very short-term, we could see potentially significant further upside until the mania subsides. However, such upside comes attached with sizeable and ever increasing risk. As we wrote last month, our enthusiasm for Asia, longer term, remains undiminished. However, it has become much harder to justify an argument in favour of potentially positive prospects for Asian stock markets in the near term given the recent upward moves. We have therefore maintained our defensive exposure to cash and remain dedicated to strong thematic and bottom up investments in markets and sectors away from the crowd. As a result, we warn that this period of relatively modest performance for the Fund may last a month or two longer until the current firework display is over.

Coal

This week, the traditionally conservative UBS issued an upgrade for a major Chinese coal company, China Shenhua Energy. Within UBS' new FV target of HK$101, the UBS analyst, interestingly, tried to make allowance for an unprecedented coal cycle, the result of China's emergence as a net importer of coal, and for an assessment of what he believed PRC A share investors would be willing to pay for shares in China Shenhua. Given the quality of China Shenhua's assets, he assumed that a PRC investor would be willing to buy China Shenhua's stock at a 15% premium to the then highest A share valuation placed on a coal stock. This suggested a FV of 74x UBS' base case 2008E forecasts. To justify this new FV target on a DCF-basis, UBS would have to assume a long-term coal price of US$150 per tonne. This is around 114% above the current global spot price of around US$70 and well above the previously negotiated contract prices of around US$44 on which UBS' earnings forecasts are broadly based. Significantly, around half of China's domestic coal transactions are capped at 30% below the spot price.

Inevitably, UBS' new FV target has sparked controversy with some references being made to the internet bubble valuations of the late 1990s. However, we are sympathetic to the points which the analyst is making. We think that the extraordinary demand from China, which became a net importer of coal for the first time during the last quarter, and which we have written about here before, will continue to have a huge bearing on what we will pay for coal and many other basic resources in the future. We also note that his coal price assumption of US$150 per tonne is, interestingly, around only 15% above the current Australian LNG prices which are already equivalent to a coal price of US$130 per tonne. We can also see a number of anomalies which suggest that the coal market is facing a truly abnormal situation. For example, South Korea is now importing coal from South Africa and Taiwanese utilities are now signing 10 year contracts for coal supply in contrast to the traditional one year contracts.

Such anomalies are thought provoking. First, they highlight well the potential impact on both coal suppliers and other coal users of unprecedented and perhaps inconceivable levels of demand which will emanate from countries such as China and India as their industrial revolutions progress. We believe that this pattern could be replicated across many resources in the future, in particular, we believe food. Second, they could suggest that we are at the beginning of a 'land' grab for resources and resource assets by large users of such resources in Asia. This will have significant implications for geopolitical stability. Third, when we combine the demand statistics globally for the many other products that we are studying within our thematic work, we can see that, if the rising demand for basic infrastructure needs such as water, electricity and roads is to be met, the prices charged for such services will have to continue to rise. This is good news for those companies that are either constructers or operators of such infrastructure facilities and begs the question as to how conservative in practice we should be on the valuation of such companies. It also, again, highlights that we all will likely soon be paying higher prices for many products. What is uncertain is at what point such higher prices start to generate significant inflationary pressures and, as a result, start to impact demand. This will probably in turn start to impact the market's assessment of share price valuations.

For us, this illustrates well how important it is that we find investments which are at the producer end of the chain. Happily, not all coal companies are as expensive as China Shenhua. Like UBS, we believe that if the coal price continues to rise, the share prices of well placed coal companies will also rise. Felix Resources in Australia, we think, offers the cheapest thermal coal assets available in Asia. Its Moolarben mine will raise its production profile at just the time we suspect coal prices will be on the march. If Felix Resources' share price were to discount the same coal price assumptions which we believe the current China Shenhua share price is already discounting, Felix's share price should rise six fold. Aside from Felix, we are also drawn to Bumi in Indonesia where again we feel its assets are undervalued by the market. However, Bumi's undervaluation is not on the same scale as Felix.

Surveillance

Those of us who live in the UK are used to having our photographs taken by CCTV cameras. China, we think, is about to embark on a construction programme which will dwarf the UK's already contentious, surveillance system. Shenzhen is being used as a testing ground for part of an all emcompassing security system known as the Golden Shield Project. As well as the traditional cameras on the streets, this also includes chipped ID cards together with PC and mobile monitoring through the so called 'Great Firewall' of internet censorship. Shenzhen now has a population of 12 million, almost twice the size of Hong Kong. On a per capita basis, Shenzhen is the richest city in China and suffers from widespread crime. Crucially, virtually all its population has migrated from elsewhere in China over the past thirty years. Population movement is a major social and political issue in China where residence permits issued at birth dictate where you can live.

So far in Shenzhen, over 200,000 cameras line the streets, streaming live video into police stations and more are planned. We believe this is just a start. First, the potential demand for surveillance systems is huge. More than six hundred and sixty Chinese cities have started work on the installation of high tech surveillance systems. Estimates suggest that, by 2010, the annual investment in surveillance systems in the PRC will have expanded to over US$43 billion from less than US$500 million per annum a mere four years ago. Moreover, the technology which PRC cities are now adopting is state of the art. Digital cameras mean that footage can be viewed over the internet from any location. New software now means cameras can, for example, match up video footage of a shop transaction with the data coming through at the point of sale system and check to see if there are any irregularities. Cameras can also provide data on the number of people entering a building. This data can then be used to adjust air-conditioning systems to match the footfall. On the streets, face recognition and behaviour recognition are now available digitally. Unusual crowd gatherings or even picking out a person in a crowd who is moving in a different way or manner to the rest of the crowd can be detected. If you think this sounds like a movie set out of The Bourne Identity, you are along the right lines.

While hardware sales trends will undoubtedly be very strong, we feel that the most value will be added by those companies with the capacity to write the software. There are a number of small, unlisted Chinese owned surveillance software companies in Australia. However, there is one listed company whose expertise spans software demand, Geovision. Geovision is one of the most profitable companies in our portfolio with an ROE still north of 50% and a balance sheet without debt.

M Payment

Hot on the heels of British Telecom's decision to blanket London with free WiFi, we have noticed a new pattern of behaviour which is sweeping countries as diverse as Japan and Africa, namely the use of the mobile phone to pay for small items. This is interesting for a number of reasons. The mobile industry, globally, enjoys revenues of around US$700 billion per year. Voice related revenue represents over 80% of that. With the advent of widely available WiFi connections, the risk to the mobile operators is that customers will acquire one of the many Taiwanese manufactured handsets which allow 'dual' operability to make voice calls over the internet. Such handsets allow users, where possible, to avoid using the mobile operators' networks and thus to reduce those, still huge, mobile phone bills. For the mobile operators, the use of mobile phones to pay for small items could provide a source of new revenue to offset the potential cannibalisation of their traditional voice revenue. The idea of buying, for example, the Sunday newspapers using a cashless transactions facility via text is an attractive one for most consumers. We will all be able to say goodbye to carrying irritating, heavy piles of coins. For the mobile companies, this is a heaven sent new and powerful application.

We think this new application will be adopted most widely and quickly in Asia. The reason is that most countries in Asia have only a handful of mobile operators; In some Asian countries, the leading operator possesses almost a monopoly. Establishing a common standard will therefore be much easier. Additionally, in some of the less developed Asian countries, it is possible that the mobile phone network already covers more of the population than the banking system. This is certainly the case in places like Vietnam where less than 20% of the population have a bank account. It is therefore possible to envisage the rapid adoption of a mobile payment system. Eventually, that mobile payment system could take on many of the aspects of a bank account. It is the longer term implications of this trend that are the most powerful for the mobile companies. In a few years time, the mobile companies, if successful, will own more information about more of the population than the banks. They could potentially have the power to 'capture the flow' of money, perhaps the most valuable aspect of all. After all, atomic clocks are now often used by large financial institutions to time financial transactions, so valuable is the interest to the last millisecond.

In reality, this will not be a big revenue earner for a number of years. However, in countries like the Philippines, the leading mobile operator, PLDT, is already making big plans. PLDT's 'Smart Money' programme allows customers to make small payments and the eight million Filipinos living abroad can remit money home via mobile transfer. PLDT is now gearing up, together with the big public transport companies, to extend the usage. PLDT is also quick to point out that many Filipinos do not have bank accounts because of the high charges. Mobile phone penetration, however, continues to rise. PLDT's mobile subscriber growth is still running at 20% per annum and PLDT expects mobile subscriber penetration to reach 70% by 2010. PLDT admits that mobile commerce is still a drop in the ocean in revenue terms and that it is still some way off having the capacity to share the banking industry's revenues. However, the money transaction charge is P2.50 versus an ordinary text charge of P1.00. PLDT is therefore already seeing some revenue benefits.

We think it is too early to invest in this theme via the mobile companies. However, software and processing providers will benefit from this theme and the longer term implications are potentially huge. We also wonder if this will be the nudge that the Asian consumer needs to start spending money again. Since the Asian crisis, consumers have, in the main, avoided credit. But the seductive power of spending money without seeing it may just be reappearing in a different disguise. Mobile phones and shopping seems like a killer combination.

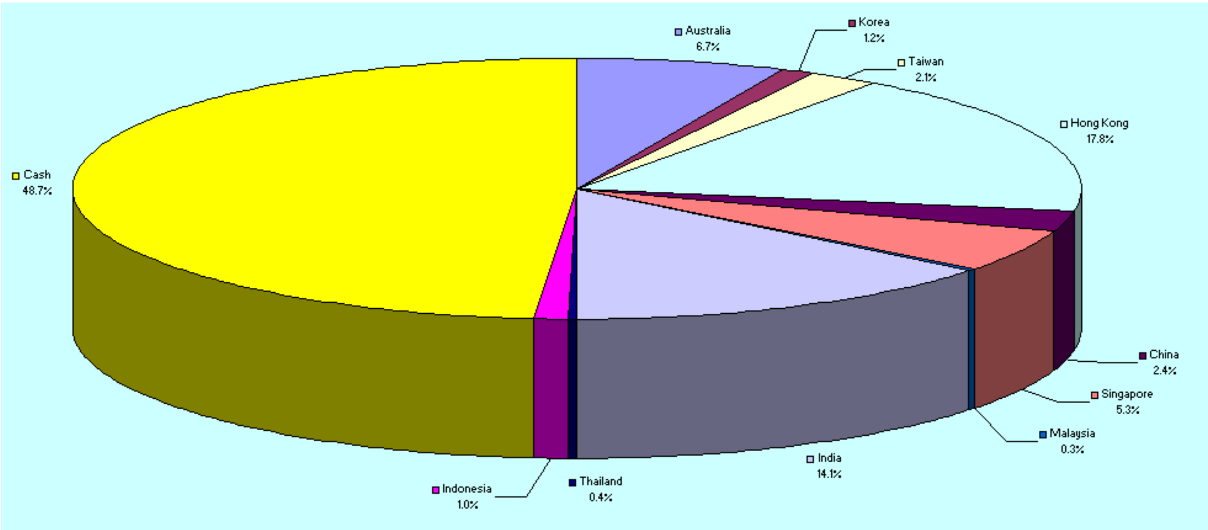
The portfolio trades on 17x CY08E earnings with 30% earnings growth forecast for that year.

Both Heather and Ed depart for Hyderabad, Mumbai and Bangalore at the end of the month. Heather then flies onto ASEAN for the following week.

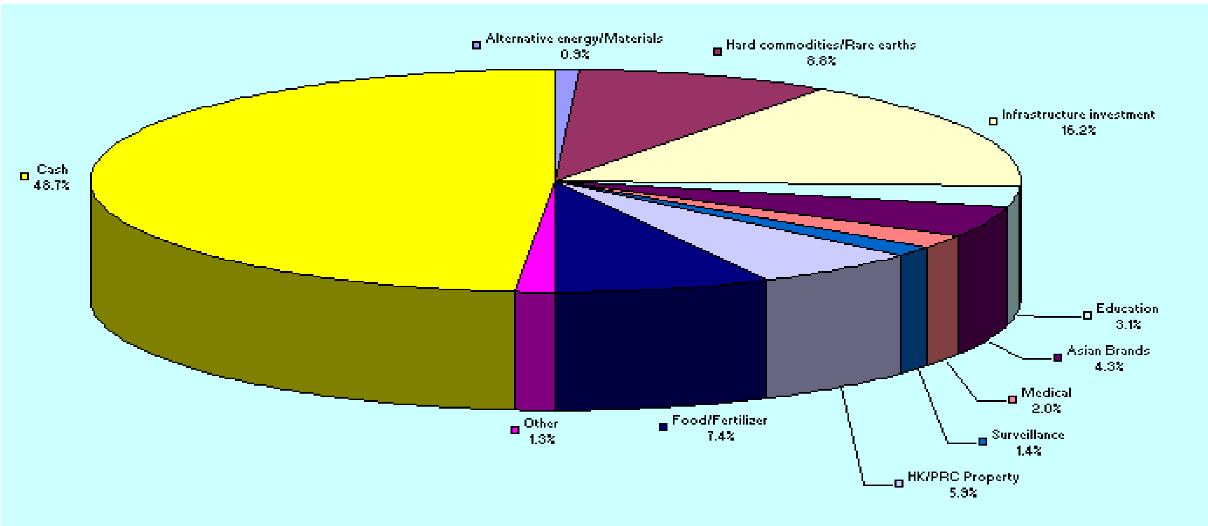
Top 5 Holdings	%
ICSA INDIA LTD	2.6%
CROMPTON GREAVES LIMITED	2.5%
CHINA MOBILE LTD	2.4%
SHANGHAI ZHENHUA PORT MACH-B	2.4%
NEWCREST MINING LIMITED	2.3%

Number of holdings	38
Percentage of Fund invested	51.3%

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			

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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