Prusik Asia Fund Plc

FSA Authorised
Recognised Schedule 5

Prusik Investment Management LLP

An Independent Asian specialist investment manager

NAV Updates

Series	*November '07*	*MTD*	*YTD*
Class A	174.36	-6.33%	19.58%
Class B	174.36	-6.36%	19.58%
Class C GBP	93.87	-6.34%	19.36%

Fund Size $413m

NAV Update	**November 2007**
Class A USD	
Non distributing	USD174.36
Class B USD	
Distributing*	USD174.36
Class C GBP	
Distributing*	GBP 93.87

The fund fell 6% in November. Although the market declined more, we were frustrated as the majority of our losses related to our investments in Korea. Share prices of a number of the infrastructure linked companies are, inevitably, sensitive to the outcome of the Presidential election. As a result, investor sentiment towards them has, inevitably, been impacted by the political debate and the fluctuating fortunes in the polls of the two candidates. A number of our investments suffered in the face of such fluctuations in sentiment. Fortunately, we were already divesting our investments in ship engine manufacturers and ship builders as we had started to question the outlook for order-book momentum given that more stringent financing conditions were beginning to impact ship purchasing decisions in Europe. We therefore avoided some of the impact of the share price declines but, sadly, not all. This cast a shadow over a good performance from our other core themes.

As we mentioned last month, we expect that, due to a much harder economic environment next year, companies will find it more difficult to surprise on the upside. While there is plenty of press coverage and talk of a possible recession next year in the US, we do not think that such an outcome is yet priced into markets. Indeed, history shows that, based on the last twenty-two years of IBES data, the consensus has never forecast a decline in earnings. While it is fair to say there is no current sense of looming weakness in forecasts, this is clearly not a reliable indicator.

At the company level, we think that some cracks are beginning to emerge. Following on from the examples we gave last month of signs of a slowdown in demand for the PRC-based export manufacturers, the new labour laws in China will also start to impact profitability. In particular, the share prices of a number of China-based Taiwanese manufacturers are beginning to discount the impact of the cost increases on profitability which the new labour laws will generate. Such increases in the cost of labour come on top of rising raw material and energy costs. As a result, corporate earnings would likely already have been under pressure even before making allowance for the added possibility of weakness in end –user demand as, unfortunately, there are already signs of a corporate capital expenditure slowdown in the US.

We are already seeing tangible signs of such cost pressures among the smaller Hong Kong based manufacturers. For example, Hung Hing Printing, not a company in which we have invested, announced interim results earlier this week. Hung Hing's operating profit declined 45% YoY and its operating margin dropped from 20.8% to 17.6%. The reasons for this decline in margins cited by the company were twofold, rising labour and raw material costs and increasing levels of competition reflective of excess supply relative to demand. Our core themes remain coal, food, education, electricity transmission and distribution, gold, telecoms, companies set to benefit from declining interest rates and companies with exposure to a select range of strong Asian domestic demand pockets such as surveillance. We are undertaking ever more stringent reviews of our holdings and have disposed of our exposure to companies dependent on cyclical OECD demand. We have retained holdings with exposure to sectors where we see a particular supply demand dynamic which, we believe, is relatively immune to the economic cycle. This includes sectors such as food and coal. We have also maintained our exposure to sectors where we think that public sector driven investment programmes will be the major demand driver. For example, our investments in companies which supply equipment to develop power transmission and distribution or surveillance systems meet such criteria. We are also increasingly focusing on companies which supply basic necessities. Medium-term revenue and earnings growth trends for these companies may be more modest, but, positively, are reasonably secure. Such attributes could, we think, become increasingly rare as next year progresses.

Telecoms

The mobile telecom sector increasingly meets the criteria on which we are basing our investment decisions. First, demand for both fixed line and mobile telecom services possesses 'utility' characteristics. Revenue is therefore reasonably secure as long as the operating environment is not excessively competitive. In a number of countries in Asia, the level of competition within the mobile telecom industry is now either light or, at least, is declining. Second, many of the operators have already crossed the huge capital expenditure hump. Third, many of the Asian mobile telecom operators still possess the potential to grow. In the mature markets, data services and other potential revenue earners, including payment by mobile as we have discussed before, suggest that there is the possibility that the network operators could continue to enjoy some top-line growth. In the more immature markets like India, attractively low levels of penetration are still a feature suggesting that the mobile telecom operators should still enjoy a number of years of strong top-line growth.

Many of the telecom stocks are still modestly valued, trading, for example, on multiples at a half or even a third of the valuation of most of the region's consumer stocks. Second, there is growing evidence that competitive pressure in some countries is waning. SK Telecom is our largest holding in the sector to date for two principal reasons:

First, while Korea is a mature and consolidated cellular market, penetration stands at 90% and there are only three operators, competitive pressures remain surprisingly high. Churn rates stand at around 3%

per month and subscriber acquisition costs average around KW 180,000 to KW 200,000. Both are high for a mature, three player market. Consensus appears to expect such competitive pressures to continue. Given that marketing costs, including SACs, account for a high 20-25% of costs, any reduction in churn rates and/or SACs could have a significant positive impact on profitability and be a positive surprise to the market. We hope that, by teaming up with recently acquired Hanaro, SKT can offer a bundled package, create more subscriber stickiness and reduce churn rates. Interestingly, this theme appears to be gathering momentum and, arguably, the Korean regulatory authorities appear to be less hostile to such developments than has been the case in the past. LGT, for example, has just decided to reduce handset subsidies by between KW 10,000 and KW 60,000 for lower use subscribers.

Second, we felt that the market was failing to make allowance for the value of SK Telecom's non-core assets and believed that the Group's re-structuring plans could crystallize at least some of that value. SKT was trading on a sizeable discount to its sum-of-the-parts which, we estimate, could easily exceed KW 300,000 per share. SKT's non-core asset portfolio includes stakes in China Unicom, POSCO and, interestingly, a mobile telecom venture in Vietnam, SKT Vietnam. As has been the case with a number of other Korean diversified groups, we think that the attractions of re-structuring the SK Group's web of diversified holdings into a cleaner holding company structure could lead to the crystallization of value for shareholders. This has been a theme which we have followed and benefited from in a number of other investments we have made in Korea in the past.

Power grid roll out

We have long been looking for investments with exposure to what we think will be the significant required investment in electricity transmission and distribution systems in both the developed and developing world. We are already investors in some of the smaller, modestly valued Indian suppliers which we have discovered like ICSA, a designer of meter software, and, in the past, we have held shares in Crompton Greaves, India's premier manufacturer of transformers. However, at around 27.4x FY03/09E earnings, Crompton's premier status would seem already to be discounted! After a recent visit to Taiwan to meet a number of the suppliers of transmission and distribution equipment, we think we have found another modestly valued company with direct exposure to this theme, Fortune Electric.

Fortune is Taiwan's leading manufacturer of high voltage transformers for both the domestic and export markets. Fortune described the global market to us as 'booming' when we met management in November and viewed the next three to five years as very promising with potential both to grow its top-line at 20% plus per annum and expand its margin. First, the company appears to be enjoying strong demand not merely from developing economies like China, the Middle East, Africa and South Asia but also from developed replacement markets like the US, Europe, Australia and Japan. Fortune expects its export sales, 35% of total sales, to grow by 30% plus per annum in 2007E and 2008E. Second, Fortune earns gross margins 500bps higher on its export sales. This combination of strong sales growth and margin expansion should translate into a trebling in Fortune's ROE. We do not think that such a jump is yet reflected in Fortune's modest forward earnings multiple of around 9-10x CY08E.

Coal

While speculation on Chinese overtures towards Rio Tinto's diversified materials asset portfolio dominates the headlines, the smaller coal producers across the region appear to be seeing offers and counter offers almost weekly! We have been participating in the action via our investments in Macarthur Coal and Felix Resources. Both investments are among the fund's larger holdings. We have also invested in Tata Power, Gujarat NRE Coke and Yanzhou Coal. A fair few of the region's mining CEOs have dropped into our offices to see us. This has given us an insight into how the various players expect the industry structure to evolve. What's new? In November, Xstrata offered investors a price 60% above the offer made by New Hope for Resource Pacific. Macarthur Coal bought and sold coking coal assets in Australia and Straits Asia bought more Indonesian coal assets. On our favoured valuation measure, Xstrata's bid for Resource Pacific valued its thermal coal assets at an EV/reserves of over US$8 per tonne. Macarthur's deal looks to have been valued at similar levels. Straits acquired its assets at a slightly higher EV/reserves valuation of under US$10, again for thermal coal assets. The industry bids are therefore being priced at a reasonable premium to the listed sector. However, we think that these bids and the sector are still grossly undervalued. Don't sell your coal concession yet!

We estimate that cash costs per tonne of coal produced in Australia have risen to nearly US$45 for thermal coal and US$60 for coking coal. Next month, we believe that the new contract prices will be set at US$90 per tonne for thermal coal and US$150 for coking coal. If we add in US$10 per tonne to take into account depreciation and required future capital expenditure, the operating margin per tonne for thermal coal is around 39% or US$35 per tonne and for coking coal is even higher. For anyone who is a believer in the long term coal price staying at current levels, paying US8 per tonne of reserves, reserves being a proven and regulated figure, seems a very modest price. We believe that coal assets, especially those with future transport links such as Felix's and Macarthur's mine assets are worth nearer US$20 per tonne. Interestingly, that was the implied value at which the share prices of the premier Chinese coal companies were trading in October. We think therefore that there is potential for sizeable further upside for our coal related investments without even taking into account of the fact that, as coal prices rise, more resources become reserves. This was the logic behind our prediction two months ago that Felix's shares could rise six-fold.

And what about the impact of a US downturn? 40% of US power generation is coal fired. In the event of a US recession, could this have an impact on the coal price? During the Asian crisis, which knocked 14% off the region's GDP, power generating levels still rose at 3% per annum. They were about the only thing that did! Coal demand is probably therefore reasonably insulated, especially as the US market accounts for less than 5% of coal demand in the seaborne thermal coal market. Even if we did see a tick down in US consumption, the scale of generating capacity expansion we expect to see in India, China and Indonesia should more than ‘trump’ any slowdown.

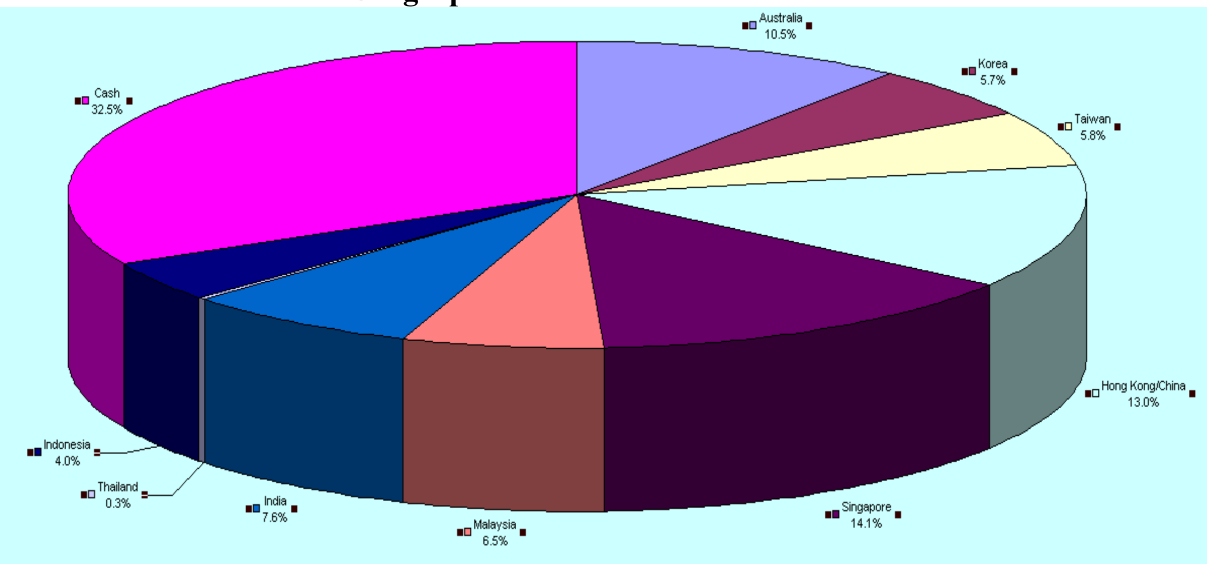
The portfolio’s PE is largely unchanged from last month at just under 18x 2008E earnings and is forecast to achieve 26% earnings growth in CY 2008E.

Heather visits Indonesia in mid-January, Ed heads to China.

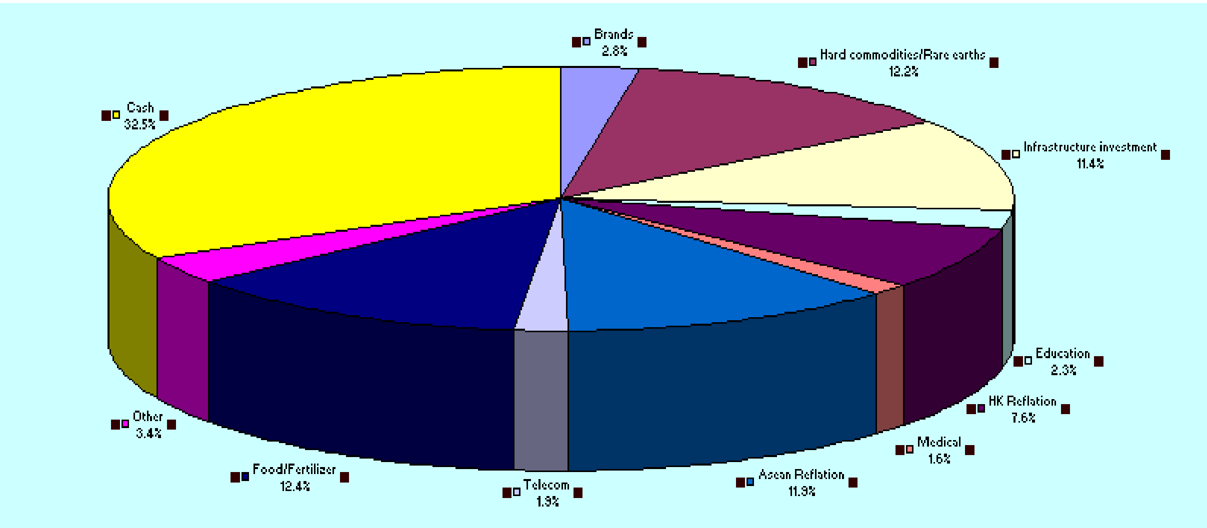
Top 5 Holdings	%
DBS GROUP HOLDINGS LTD	3.5%
BANK OF EAST ASIA	3.5%
ICSA INDIA LTD	3.1%
NEWCREST MINING LIMITED	2.8%
ASTRA INTERNATIONAL TBK PT	2.8%

Number of holdings	44
Percentage of Fund invested	67.5%

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	

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

Prusik Investment Management LLP
Third Floor, 45 Charles Street, London, W1J 5EH.
Tel: (+44) 20 7493 0929 Email tony.morris@prusikim.co.uk
Web : www.prusikim.co.uk Fax : (+44) 20 7493 1770

Manager Fees

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