Prusik Asia Fund Plc

FSA Authorised
Recognised Schedule 5

Prusik Investment Management LLP

An Independent Asian specialist investment manager

NAV Updates

Series	*December '07*	*MTD*	*YTD*
Class A	177.72	1.93%	21.88%
Class B	177.76	1.95%	21.91%
Class C GBP	95.70	1.95%	21.69%

Fund Size $420m

NAV Update	**December 2007**
Class A USD	
Non distributing	USD177.72
Class B USD	
Distributing*	USD177.76
Class C GBP	
Distributing*	GBP 95.70

During December, the fund rose 1.93%. Our narrow focus on a few key themes, gold, food, coal, telecoms and government spending on power transmission and distribution began to pay off. The gold price broke out of its consolidation range taking our gold mining shares up with it. Other commodities, such as palm oil, vegetables, sugar, on which more later, and coal, all strengthened further. In India, our investment in our favourite company, ICSA, which provides software for managing power distribution systems, also made significant progress as the share price gained just over 50% in December alone.

It would be incorrect to say that Asia is blithely ignoring the storm clouds gathering over the US and European economies. However, while most Asian stock markets have weakened a little, the unfolding problems in the US and Europe appear to have had little impact, so far, on sentiment.

Downgrades?

For a start, there have been few signs of any downgrades in Asian earnings forecasts. This is, as we wrote last month, in spite of increasing evidence of margin pressure from rising costs, raw material prices and, in China, wages. In the face of such rising costs, there also appears to be more data points emerging to suggest that weakening demand from the US and Europe is now a reality for Asian business. For example, the dry bulk shipping index has fallen, at the time of writing, 28% from its high in mid November. This index is a better measure of shipping activity between Asia and Europe than the US and is therefore worth keeping a weather eye on. The impact of this could weigh heavily on adjustments to analyst and company forecasts in the coming months. The additional risk here is twofold. First, this is not a linear process. The delta in the rate of change on cost and revenue lines accelerates and exaggerates, both to the upside and the downside, the final impact on profits. We have benefited hugely from this as top line growth of 20-30% has more than allowed operational efficiencies to offset cost increases. The converse could be unexpectedly painful. Second, as analysts downgrade growth, perceived risk tends to rise thus leading to a reduction in fair value estimates triggering PE multiple contraction.

China

Additionally, recent trade numbers from China show the trade surplus narrowing for the second month in a row. This is not due to rising consumption in China leading to bigger imports. Indeed, one of the things which concerns us most about China is that, in spite of the strong growth of recent years, the current account surplus has continued to balloon. It is now 11% of GDP. This suggests that growth in domestic consumption is lagging the external part of the economy and highlights a greater vulnerability to export slowdown than is currently perceived. Some of the recent anecdotal evidence suggests domestic consumption is slowing. For example, the latest data points on mobile handset sales in China reveal a material weakness in demand. Compal Communications, a handset maker in Taiwan recently announced that its latest monthly sales had fallen 45% YoY! The key here is to what extent China's domestic demand can soak up any excess capacity which appears as exports soften.

Valuations

Finally, valuations in Asia are beginning to look out of kilter with the rest of the world. For example, technology sector share prices have been among the hardest hit both in Asia and in other markets globally. However, Taiwan listed Hon Hai, a contract manufacturer, and Delta Electronics, a global leader in power supplies for consumer electronics, are still trading on forward PE multiples in line with their major customer Hewlett Packard. This is unusual and suggests either that US technology company share prices are undervalued or that Asian markets have yet to wake up to the new valuation paradigm.

We feel that the first half of 2008 will, therefore, perhaps, be even more challenging than 2007. At the very least, Asia will be affected by the cyclical downturn caused by the credit derivative crisis and it is unlikely that any one country, even China, can escape unscathed. At the risk of becoming repetitive, more than ever we believe that the key will be to invest only in companies and industries which have drivers which are, as far as possible, unaffected by the economic cycle. It will become increasingly challenging to find these, particularily at attractive valuations, as we think investors will likely be forced seek earnings security at any price. The five themes in which we have chosen to invest were picked precisely with this outcome in mind. So far, our themes have generated positive absolute returns in spite of general stock market weakness. In most cases, our companies also do not look unduly expensive at this stage. Indeed, some of the food and power transmission companies are still cheap on an absolute basis. However, the final risk remains that a wholesale reduction in valuations has still to play out. As a result, please do not be surprised to see us raise our cash level one more time at some point. Thereafter, the opportunities should be very exciting indeed.

Bio Degradable Plastic

During our visit to Asia last autumn, we were surprised to find not one but two companies planning to build facilities to make bio degradable plastic. This is a product which has quietly made the leap from the science pages to a store near you. This Christmas, US big box retailer Target introduced holiday gift cards made from bio degradable plastic and, reportedly, canteens at some of the more forward looking companies in California would now not be seen dead offering drinking cups made from anything else. Even TopShop in London sells 'charity water' in biodegradable plastic bottles. The manufacturing process, therefore, is now in commercial use, albeit still at a very early stage.

We think that the potential for this new product sounds intriguing for two reasons. Industry leader Metabolix makes its trademark Mirel plastic from specially engineered bacteria that gorge on corn sugar until they die from obesity. About 85%-95% of the bacteria's fat is actually microscopic plastic which is extracted and cooked before making it into pellets, sheets or thin film. Of course, it is currently costlier to produce than normal plastics, not least because the economies of scale do not yet exist. However, at US$2 per pound compared with US$1 per pound for traditionally produced plastics, the gap is not unbridgeable. The potential applications for bio degradable plastic are obviously very wide. Aside from the manufacture of coffee cups, dinner ware, food containers, golf tees and containers for all household products from detergent to face cream, there are a huge number of agricultural applications such as plant pots, stakes and erosion control netting. The medical industry is probably already the most advanced user of bio degradable plastics. Medical devices made from bio degradable plastics include dissolving stitches and bone pins. Such bio degradable plastic devices break down slowly in the body. As a result, a second operation is not required for their removal.

In addition to the plans we heard about in Asia, both Metabolix and Archer Daniels are planning big production capacity increases to come on stream at the end of 2008. This is all great news for the environment and, importantly, it lead us to start thinking about sugar.

Sugar

Sugar was one of the few soft commodities whose price declined in 2007. This has been the result of massive over supply from the heavily subsidised European growers, cyclical mismanagement in India and the widespread usage of corn sugar in Asia. We found that the expectation that world sugar prices would remain subdued was so ingrained that most of the bulge bracket investment banks we contacted had no sugar analysts. Piecing together the jigsaw, it seems that a number of factors are changing which should be supportive of higher sugar prices going forward.

First, in India, which produces about 30 million tonnes of the 162 million tonnes of sugar produced globally, a major dispute in the courts between the millers and the provincial Governments which set the prices paid for cane to the farmers, unfavourable rains and the timing of Divali, have all resulted in a delay in the December harvest. Further delays in cane purchasing decisions have meant that some cane was sold to manufacture khandasari and gur, this has left less cane available for sugar production in 2008. Furthermore, looking further into 2008, the strength of the domestic wheat price has resulted in a 40% increase in the minimum support price paid for wheat. This is causing many farmers to switch crops from sugar cane to wheat. It looks as though FY09/09E will see at least a 15-20% decline in output from India.

Second, in Europe, which currently produces around 17 million tonnes of sugar per year, the EU's decision to restructure its subsidy system will result, longer-term, in reduced production. Production quotas are being retired on, currently, very generous terms. The EU is targeting to reduce production by 6 million tonnes. So far, only 1.8 million tonnes of capacity has been taken out of production. However, this trend could accelerate in 2008 as farmers rush to benefit from the currently very generous incentives. The package includes a cash payment equivalent to seven years crop value and no restrictions on alternative use of the land.

Third, in Brazil, whose annual sugar production matches that of India, sugar demand is soaring as ethanol usage is outstripping expectations. Sales of flexible fuel cars rose 44% in the first 11 months of 2007 and in November a record 85% of all cars sold were powered by flexible fuel. Currently, 53% of Brazil's sugar crop is already diverted to the production of ethanol. With ethanol manufacture currently generating a higher return than sugar production, it looks likely that an even higher percentage of Brazil's sugar crop will be used to manufacture fuel in coming years.

Finally, in China, given the Government's current concern on food price inflation. it seems unlikely that the price paid for sugar cane will be raised. As a result, farmers are likely to switch land usage towards more profitable competing crops. This trend, combined with the recent drought in Guangxi Province, means that China's sugar production could be well below the typical annual crop of 13 million tonnes. China surprised the market early in January by announcing that it will import some 500,000 tonnes of sugar to boost inventories.

In total, sugar appears to possess a number of favourable supply and demand trends which, between them, suggest that sugar prices could be strong for at least the next couple of years. The impact of China becoming an importer of sugar should not be underestimated. We also expect that the increasing use of sugar as a source of bio-fuel will continue to keep sugar prices high. Interestingly, not one of the commentators we have spoken to has factored bio plastic into their equations.

As a result, the fund is now invested in three sugar milling stocks, two in India, Balrampur Chini and Bajaj Hindusthan, and one in Australia, CSR, all of which are beneficiaries of a rising sugar price and all of which had suffered declining profitability and weak share price performances. Our two Indian sugar millers are potentially beneficiaries of the happy combination of declining sugar cane input prices and rising sugar output prices. In India, the sugar cane price which the millers have to offer farmers is ultimately set at the Provincial Government level. This is usually at a sizeable premium to the price set by the Central Government. The State Government of Uttar Pradesh, a major area of sugar cane cultivation, set the cane price at Rps 1,250 per tonne, almost Rps 450 above the Central Government's set price in FY09/07. At such a cane price, the millers were unable to generate a positive margin given current low sugar prices. This set price has now been challenged and two Courts have ordered State Governments provisionally to reduce the cane price to Rps 802.50, the national price, in one case, and to Rps 1,100 per tonne, in another case. The UP State Government has also been instructed to set up a committee, on which all stakeholders will be represented, to make a recommendation on a more appropriate sugar cane price. At the same time, reflective of the reduced sugar cane crop outlined above and the expectation that farmers will switch land from sugar cane to more profitable wheat and rice, the domestic sugar price in India has started to rise over the last month. However, at Rps 14.50 per kg, the sugar price is still well below its last cyclical peak of over Rps 19 per kg. The Indian sugar millers have significant operating leverage and we therefore believe that a potentially dramatic turnaround in profitability is possible over the next two years should the current input and output pricing trends remain in place. CSR in Australia, unlike our Indian investments, is not a pure sugar play. However, like them, the sugar price remains the biggest influence on its share price performance and, like them, a higher sugar price could lead to a dramatic improvement in profitability.

Coal, again

As we write, Shanghai is in the grip of dense smog with more than fifty vessels unable to enter the port due to zero visibility. As a result, the Shanghai Authorities, currently, are shipping coal on barges up the Huangpu River into the city in an attempt to provide enough fuel to keep one of Shanghai's main power stations running. Infrastructural constraints in the form of 'brown outs', which are regular occurrences in India, would seem to be just around the corner for many of China's principal coastal cities. This is, perhaps, not surprising given China's breathtaking pace of growth. However, such incidents would be an embarrassment to a Government whose country is very much 'on show' this year. Overall, coal inventories now stand at only fifteen days. While coal reserves are always seasonally low, at this time of year, such a level is still well below last year's equivalent figure. It seems likely, therefore, that China will be forced to increase its imports of coal significantly and quickly. As we have said before, we think this event will be the most important factor, so far, in driving the continued performance of the coal sector.

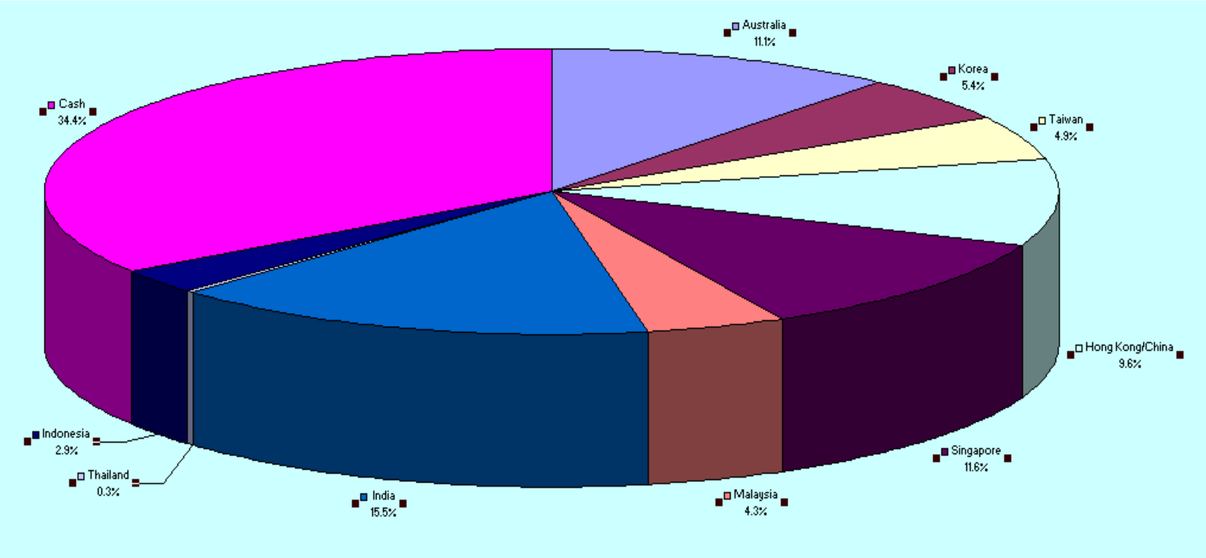
The portfolio trades on 18X 2008E and 15x 2009E earnings with an ROE of 21% for 2008 and earnings growth into 2009 of 26%.

Heather is in Indonesia this week, Ed will be in Beijing next week.

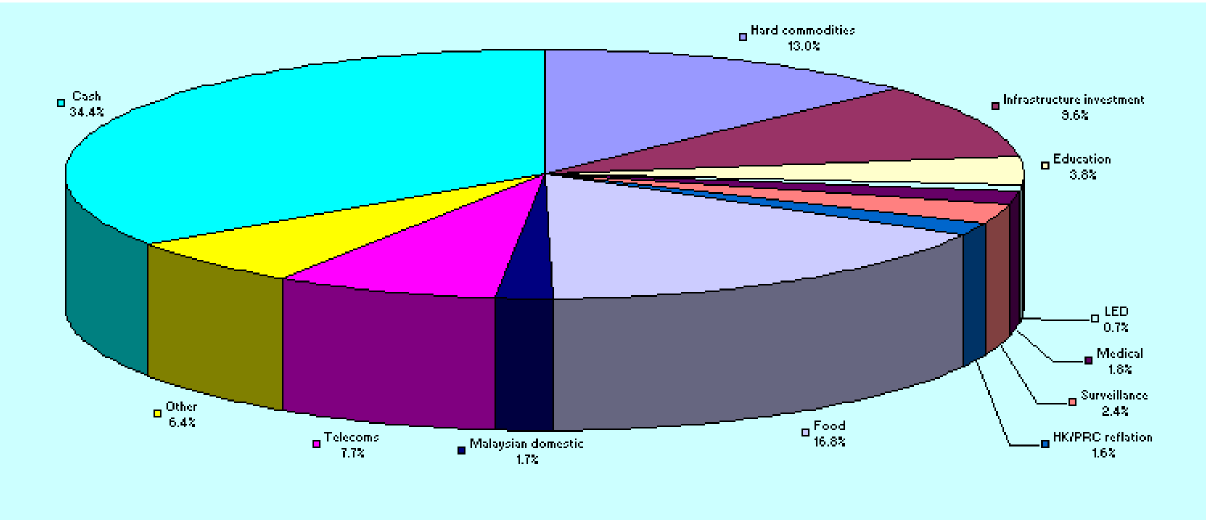
Top 5 Holdings	%
ICSA INDIA LTD	4.7%
NEWCREST MINING LIMITED	3.2%
DBS GROUP HOLDINGS LTD	3.0%
SK TELECOM	2.7%
CREDU CORP	2.7%

Number of holdings	34
Percentage of Fund invested	65.6%

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

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.