Prusik Asia Fund Plc

FSA Authorised
Recognised Schedule 5

Prusik Investment Management LLP

An independent, Asian specialist, investment management company
Long Only Absolute Return in Asia & Australia ex Japan

NAV Updates

	Since inception		
Series	*Oct 2005*	*28th Feb '06*	*MTD*
Class A	+17.37%	$117.37	+0.09%
Class B	+17.37%	$117.37	+0.09%
Fund Size	$21m		

NAV Update	**28th February 2006**
Class A USD	
Non distributing	USD117.37
Class B USD	
Distributing*	USD117.37

The fund NAV was unchanged over the month despite some weakness creeping into markets. You will have detected in our January monthly, a move towards selling some of our more expensively valued companies and this continued in February so we ended the month with 42% cash. We have found fewer companies this month which appeal to us on valuation grounds and so are awaiting better entry points. In the meantime, we have been busy visiting companies both in Asia and London in preparation for this opportunity when it comes.

Rising returns in Taiwan

Ed spent 5 days in Taiwan. We have noticed that most international securities houses there cover on average 4-9 companies outside the banking & technology sector – something we believe will have to change but in the immediate future offers great opportunities to the more intrepid.
Staying off the beaten track, we noticed encouraging early changes in management approach, including recognition of what minority shareholders rights are! Young blood is returning to Taiwan from business school to drive this management change and at last we are seeing the back of the long established taboo of appointing foreigners to key roles.
Property in Taiwan is interesting, especially given our longer term expectations regarding political change vis a vis China which should invigorate the domestic economy. In January – February 06 housing transaction volume grew 17% yoy and prices also rose. Taiwan Fertiliser (11x 06 PE, 0.75x P/B, 33% discount to NAV and yielding nearly 7%) is well positioned to benefit from this. Once laws are passed allowing real estate securitisation (which we expect this year), then significant value can be unlocked.

China /Food

The performance of some of our China related companies was the highlight of the month. In particular, attention has returned to food, which you may remember was a theme we discussed at launch. Presidents Hu's path to the top took in far more rural postings than his predecessors, and it has been where town meets country that most of the recent unrest has taken place. Not surprisingly therefore, investing in rural areas and raising living standards there has become a current priority.
98% of China's agricultural sector consists of 250 million fragmented homesteads with little or no room for economies of scale or distribution muscle. However, the 2002 change in land law now means there is opportunity to consolidate, and this is starting to happen in a meaningful way.

Our analysis of the Chinese dairy farming sector last year showed that the top 5 companies controlled 75% of the market. In the fruit & vegetable sector, the top 5 control less than 3%. Chaoda, which we visited last November and again in February, has a strong business model taking advantage of this. Not only is it aquiring these small farmsteads and adding to its productive area by 25% per annum, but due to its size and therefore distribution ability, it is increasingly selling direct to supermarkets, rather than wholesalers, thus doubling its margins. The company is on 2x book, 10x 06 PE, with ROE rising over to 25%.

Urea

An adjunct of our interest in food has been an interesting foray into understanding the urea market which seems rather under researched. Urea is the simplest form of nitrogen fertiliser and is one of the fastest growing commodities by volume, largely due to demand from China and Vietnam, where land reform and more intensive and business–oriented agriculture has driven these two countries to comprise roughly 10% of global demand, from virtually nothing 3 years ago.

The feedstock for urea is natural gas, so the price of urea is linked to both food and energy prices. We expect robust performance from both. Taiwan Fertiliser, mentioned above, is treated by the market as a property/asset stock but in fact 65% of 05 net profit came from a 50% JV urea plant in Saudi Arabia (where profits have risen 10 fold in three years). This division is on track to grow a further 50% in 06 but not one dollar of that is yet included in the valuation above.

Water (again).

You would think, being English, we would know better than to try to predict the weather but anomalies everywhere are telling us that the water shortage which much of the world is now experiencing could be important.

We recommend an excellent article by Fred Pearce in a recent New Scientist magazine detailing the extent of depletion of long term water supplies in deep aquifers in rapidly growing countries like India and China.

Most concerning however is the current worst drought in memory in the Amazon basin. The Amazon river carries a fifth of the world's water, more than the next nine largest rivers combined, and much of this water is recycled in the rainforest (which uses huge amounts of solar energy) before being swept by winds to rain on the rest of the world. Traditionally, poor rainfall in the Amazon heralds drought in the US growing season 4 months later. Crucially scientists believe that illegal ' below canopy' logging has destroyed much more of the rainforest than previously thought, leading us to a tipping point, possibly now, where the forest is too small to sustain the vast recycling process and so will dry out, becoming vulnerable to fires.

Whilst we remain keen on our water treatment companies, we are beginning to feel that this theme may take on a different direction. The short and longer term spectre of widespread droughts suggests, for example, that food prices will rise (the other big component cost of food production – energy – has already risen).

Pulp and Paper

The ongoing restructuring in China has extended to the Paper sector. From January 06 the 13% tax rebate to companies exporting paper products is no longer available, rendering this activity unviable for many companies involved. Indeed, Ed's recent visit to Taiwanese pulp/paper companies highlighted that all Chinese pulp mills producing under 30,000 tons per annum will be closed. Clearly chopping down China's forests or using precious energy and water supplies to provide Japan with cheap paper, with little profit to the Chinese, doesn't make sense. We estimate China will need to import an additional 1.5 mill tons, increasing its current imports by 20%.

This is interesting for several reasons.

First, pulp and paper prices have already started to rise as China exports less, benefiting companies in the sector such as Chen Loong and Chung Hwa Pulp in Taiwan.

Second, this is a pattern we have already seen in a number of different sectors which have traditionally been low margin export products for China. These are all areas which take a heavy environmental toll and are high energy and water users, such as cement, aluminium and steel. All these areas have seen price increases in recent months.

Might it be possible that China is realising it doesn't have to provide the rest of us with these products at knock down prices, or even at all, given the strain on domestic resources?

Third, if China continues to use domestic wage inflation to close down certain businesses and redistribute labour, but in so doing is now focussing those businesses more on managing themselves for profit, then this is a very powerful longer term bullish story for Chinese equities.

Lastly, the recent and very powerful rally in China could be explained by both a shift towards emphasis on profitability plus new pricing power in certain areas.

We shall watch closely for further evidence which will enable us to enlarge on this theory.

Portfolio

Overall the portfolio is trading on a forward PE of 8.5x, with earnings growth of 24% generating an ROE of 18%.

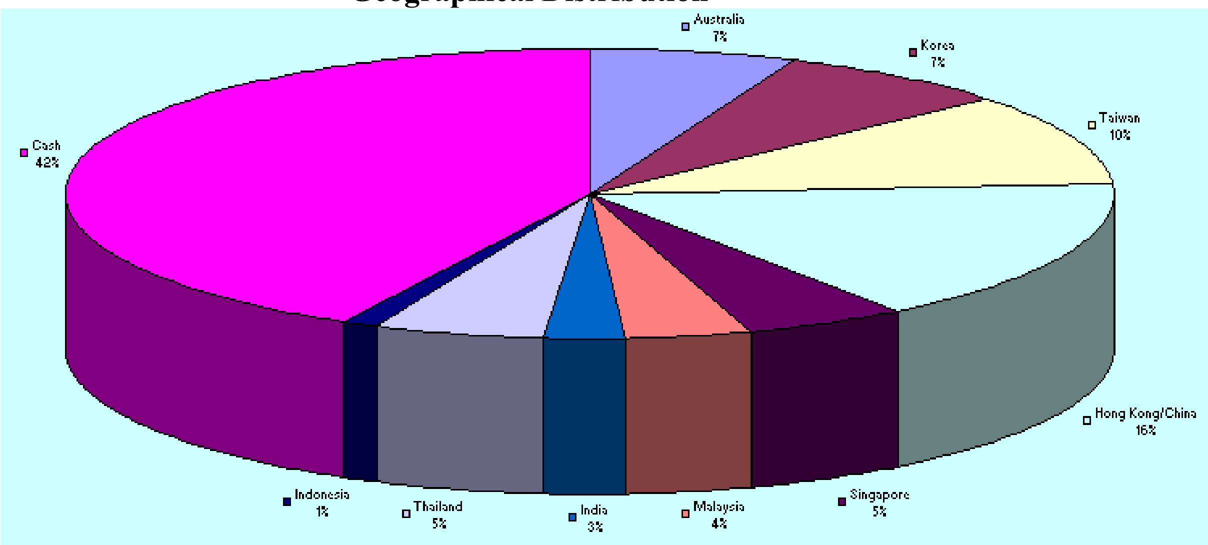
This year so far we have met with over 60 companies in the region and nearly 30 in London plus another 20 by telephone call. Heather is currently planning a trip to Vietnam and Thailand.

Finally, we have been joined by Simon Rogers on a temporary basis. Simon is an old colleague of Ed's and friend of us all and was a highly regarded sell-side analyst. He is kindly giving us a few weeks of his time in exchange for 're-immersion' in Asian equities, following a sabbatical. His expertise is currently helping us improve our stock models and stock selection process.

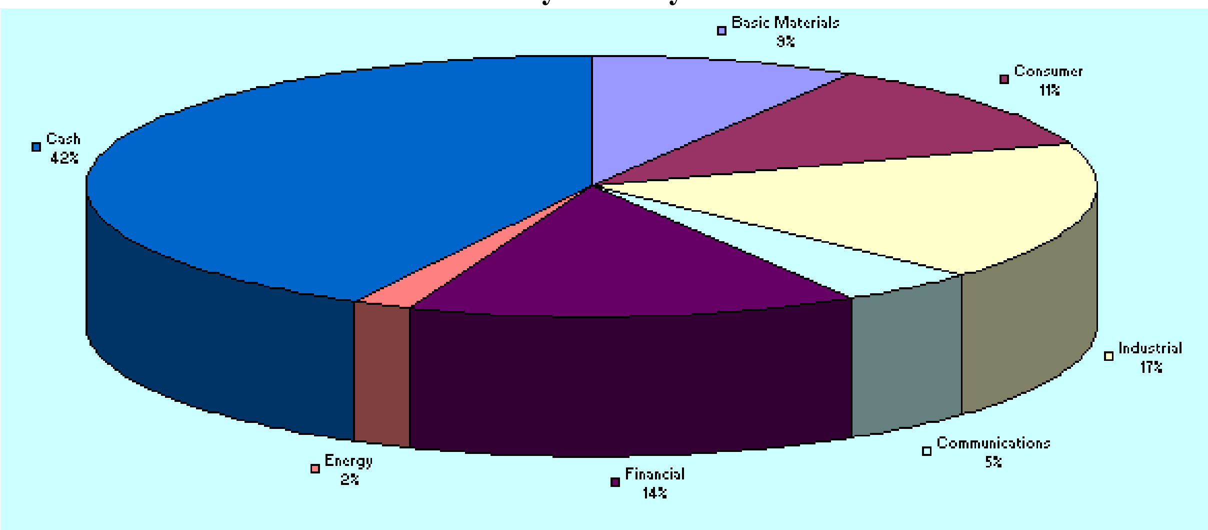
Top 5 Holdings	%
ROJANA INDUS PARK PUB CO LTD	3.6%
CHENG LOONG CORP	3.4%
UNI-PRESIDENT ENTERPRISES CO	3.2%
GREAT EAGLE HOLDINGS LTD	3.1%
CHINA LIFE INSURANCE CO-H	2.9%

Number of holdings	26
Percentage of Fund invested	58%

Geographical Distribution



Distribution by Industry



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

Manager Fees

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

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)

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