Prusik Asia Fund Plc

FSA Authorised
Recognised Schedule 5

Prusik Investment Management LLP

An Independent Asian specialist investment manager

NAV Updates

Series	*31st Mar '06*	*MTD*	*YTD*
Class A	119.53	1.84%	9.8%
Class B	119.53	1.84%	9.8%
Fund Size	$27m		

NAV Update	**31st March 2006**
Class A USD	
Non distributing	USD119.53
Class B USD	
Distributing*	USD119.53

The fund rose 1.8% against a background of mixed performance from stock markets. We are now seeing extraordinary international appetite for Asia, in particular China and India, and the industry inflow numbers so far this year have already topped the total in 2005; this explains much.

In addition we are seeing the beginnings of M&A activity and the emergence of private equity interest. For example, private equity company Texas Asia recently raised US$14bn. In reaction to such trends, price activity could be very powerful. However, the medium-term impact will likely be mixed given that many Asian boards will have, due to the concentration of share ownership, significant capacity to resist such approaches.

Whilst there is still value to be found in Asia, it is now harder to come by. It is remarkable how many analyst recommendation 'upgrades' are in fact just target price upgrades and some very debatable price justifications can be heard. We are not seduced by this and are working hard to uncover genuinely new and attractively valued situations which haven't already been pawed over by the crowd.

Infrastructure (again) – Railways

There are over 30,000 trains running every day across China and more than half of them still have drop- through loos! This lovely statistic comes from one of our small water treatment companies, Biotreat, who are hoping to provide, via their patented mobile sewage treatment system, a significant portion of this upgrading work required on these trains.

Railway investment in China has significantly lagged that in road, ports and airports. However, this now appears to be changing. Recently announced projects are worth US$19.8bn in 2006 alone and include 2 high speed lines, one of which is between Shanghai and Beijing and will reduce travel time from 13 hours to a mere 5!

China's rail network is behind only the US and Russia in size. However, only 33% of the network is double track and just 26% is electric. Many rail users in China still experience slow journeys on elderly rolling stock. This is a serious bottleneck to China's growth, especially in the interior of the country, which the government is focussed on developing. The overall plans are impressively large. China plans to build an additional 100,000 km track. , 50% of this will be electric powered and 30% of it will, by 2020, be high speed track. Some 10,000 rail cars will be needed. Urban railways are also being rolled out with over 21 subway lines now completed or under construction. In all it looks likely that by 2020 the government will have to spend some US$250bn.

In India, where railways already have a larger share of freight, much the same story is under way. Investments here are focused on adding speed and capacity to existing lines. For example wagon manufacturing looks set in increase 25% over the next year and double stack container trains have been approved from this month onwards. Much of this business may go to overseas companies. One such example is Singapore listed Midas which makes aluminium alloy products for railcars and is growing at 50% per annum.

We are still working on our numbers post Midas' recently announced acquisition in China, but will likely be upgrading from already high profit growth assumptions, up 40% in FY12/06E, up a further 30% in FY12/07E and ROE trends rising to around 28% by FY12/07E.

We wrote on pulp in our last monthly. We noted that United Tractors saw demand for forestry equipment jump in the first quarter of this year. United has been one of our Indonesian holdings and we feel that operationally it is beginning to see the top line change already apparent at other heavy equipment manufacturers like Doosan Infracore & Caterpillar. Aside from a jump in forestry equipment sales, Komatsu related equipment sales showed a strong performance in March even though Q1 is a seasonally weak period. This all comes alongside an expected strong showing from PAMA – its coal contract mining division. Our forecasts show ROCE increasing to over 30% in 07, with a current PE of below 9x.

Content

We notice that one of the better performing sectors recently in the US has been the fibre optics equipment area – there has been major investment in expansion of broadband infrastructure capacity. Given the creation of all this extra bandwidth capacity, one thing is clear, nature abhors a vacuum. We expect soon that the new empty fibre optic highways will be filled with new content vehicles. Simultaneously, we hear Hollywood is about to offer film downloads via the internet and Bertelsmann is putting its stake in music group BMG up for sale; this will surely create a bidding frenzy and send the value of music catalogues to new highs. HDTV will add further to the demand.

All this means that traditional content companies, which have been ignored in recent months, are likely to see their value rise, whilst those who embrace the incredible growth of self generated content (any of you with teenage children will be familiar with sites such as Bebo and MySpace) and can make money from such traffic will do particularly well. News Corp (which owns MySpace) and Tom Group (which owns Tom Online) are both attractively valued on both historic and industry comparisons.

As an aside, Global Voice Group, listed in Singapore, owns a long distance fibre optic cable network in Europe and Asia which is currently being used at only 5% capacity and is therefore loss making to date. This is likely to turn profitable within a year as they add new dedicated customers such as global banks who want their own networks. Global Voice has huge operational leverage. The NAV, conservatively, stands at S$0.41 per share vs a current share price of S$0.18. The company, which, is sitting on net cash, is trading at a fraction of the replacement cost of its network (we think US$1.4 billion), versus its market cap of US$268million.

Food

We mentioned food last month. However, soft commodity prices continue to rise and we believe will continue to do so. It is interesting that whilst much of our food is transported great distances, having been grown in other countries, energy ministers don't attend international conferences on food security. Maybe they should.
One recent pressure on prices is the increase in competition for agricultural land for certain crops for bio-diesel usage . In the EU, for example, by 2010, some 7.5% of transport needs will be met by bio-diesel. Similar trends are now being seen in South East Asia. A growing lack of water and irrational farming practices (in Gujurat, India for example, where there is a water shortage, farmers use 2000 litres of water to produce 1 litre of milk.) are also contributing factors.

Aside from this, we have global warming. A 1 degree Celsius rise in temperature leads to a decline in wheat, rice and corn yields of 10%.

Until recently, environmental trends had been fairly local. However, the halving of Saudi Arabia's wheat harvest as a result of aquifer depletion and the shrinking grain harvest in Kazakhstan as a result of wind erosion which has claimed half its cropland are just two examples of the threat to global food production
Finally, and very seriously, the drastic fall in China's grain production over the last decade has been offset by the drawing down of its once massive grain stocks. However, these are now largely depleted. In 2004 China became overnight the world's largest wheat importer. This may signal a shift which will see it importing even more in future. This would be normal. In the past, Korea, Japan and Taiwan, each reached a point of industrial development which resulted in agricultural collapse and each country importing up to 70% of its grain needs. China may just be reaching that same point. Grain prices jumped 20% in early 2004 before settling down again but maybe this was a warning tremor – a pattern we often see before a big move.

Coal

China is again experiencing capacity constraints in its coal industry. Capacity shutdowns at unsafe mines continue. There was huge under investment in this sector during 2001-2003 because the Chinese held domestic coal prices at a huge discount to the Japanese and Australian contract prices. The effect of this is now coming home to roost. Local demand continues to surge with industry experts now predicting a need for another 48GW of power plants to be added over the next 15 years in China as opposed to the planned 29GW. Although LNG may fuel some new power plants, recent meetings with Woodside and representatives of the Chinese coal industry suggest that the LNG / coal generating cost differential is significant at around 30%. Given the very strong global demand it seems that LNG prices are not set to fall, and that coal prices will rise. As a big domestic producer, a small change in China's demand can have a huge impact on the international market. We hear the two big coal producers, China and the US, are both structurally reducing exports. We can only conclude that coal prices will rise sharply from here.

Yanzhou Coal is perfectly positioned to benefit from this. We think that such an upside surprise will trigger some hefty changes in expectations which, currently, still forecast PE's to rise next year – not fall. Yanzhou's ROE is set to top 25% this year.

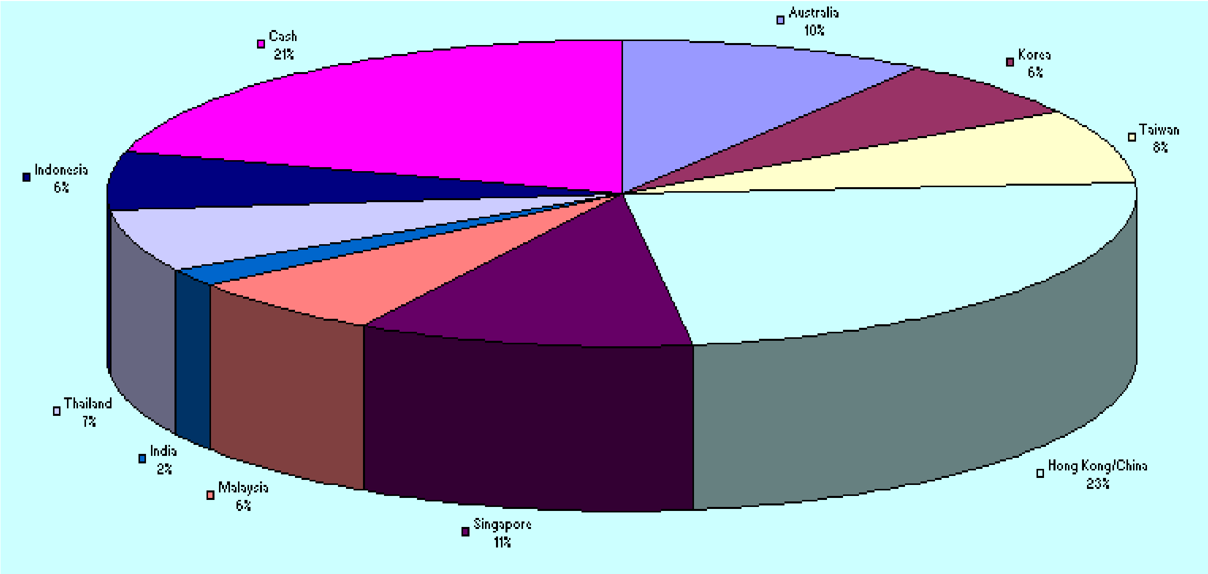
Overall the portfolio is trading on a forward PE of 9.5x, with earnings growth of 23%, generating an ROE of 18%.

Heather visits Indonesia, Malaysia, Thailand and the Philippines in May.

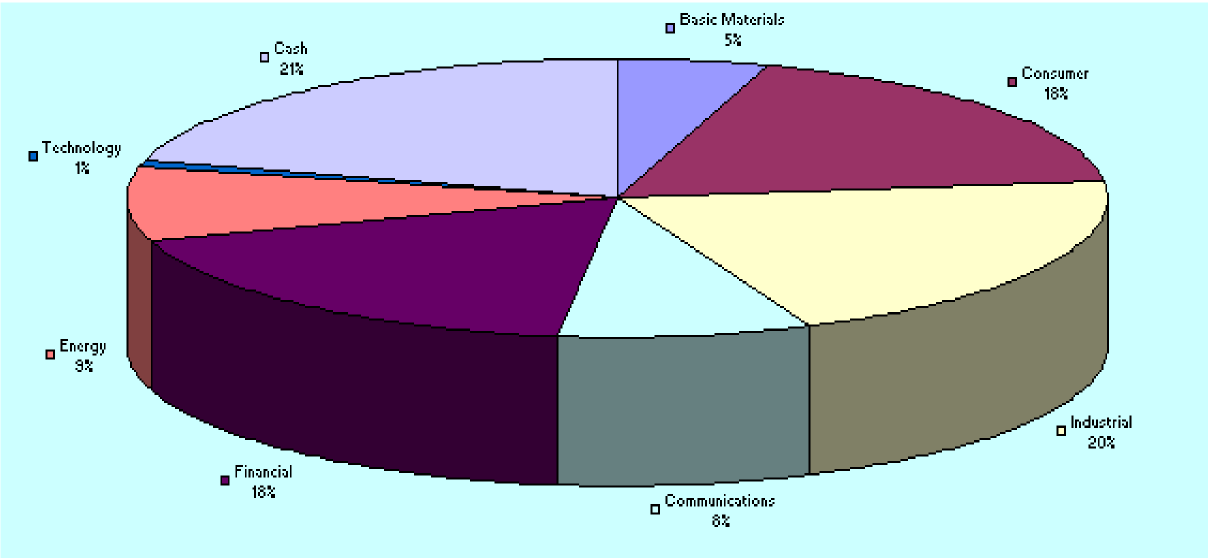
Top 5 Holdings	%
CHINA SHINEWAY PHARMACEUTICA	3.3%
ROJANA INDUS PARK PUB CO LTD	3.2%
YANZHOU COAL MINING CO-H	2.9%
UNITED GROUP LTD	2.8%
TAIWAN FERTILIZER CO LTD	2.7%

Number of holdings	39
Percentage of Fund invested	79%

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)

Prusik Investment Management LLP
63A South Audley Street, London, W1K 2QS.
Tel: (+44) 20 7493 0929 Email tony.morris@prusikim.co.uk
Web : www.prusikim.co.uk Fax : (+44) 20 7493 1770