Prusik Asia Fund Plc

FSA Authorised
Recognised Schedule 5

Prusik Investment Management LLP

An Independent Asian specialist investment manager

NAV Updates

Series	*31st May '06*	*MTD*	*YTD*
Class A	129.08	-1.95%	18.57%
Class B	129.08	-1.95%	18.57%

Fund Size $33m

NAV Update 31st May 2006	
Class A USD	
Non distributing	USD129.08
Class B USD	
Distributing*	USD129.08

The fund fell 1.9 % in what was an extremely testing month for global stock markets. As we wrote last month, a searching review of our holdings was already prompting a move towards cash, in light of some very strong moves and, more importantly, valuations which were getting ahead of our targets. In addition many of our themes were becoming more widely accepted and the change more fully discounted. Our LED investments for example were pushed up to levels in excess of our expectations, some share prices having doubled this year. We sold out on the basis that the near term change we saw in this industry was reflected. Also our pulp & paper investments had risen from a sharp discount to assets at the point when we had invested in the sector to over 50% premiums which again we saw as discounting the change we had envisaged. The fund remains invested in what we would consider high conviction themes and companies, namely alternative energy, clean energy, food and the ongoing change in Taiwan all of which performed well in May.

As Gordon Brown has pointed out, world economies are going through the longest period of continuous expansion for a couple of hundred years, so even a return to 'normal' will feel painful. This is probably in store. Profits are at or very near to record levels as a percentage of GDP in many countries. Our more recent meetings with Asian manufacturing companies have also started to highlight that the upward pressure on costs is now starting to bite, every other avenue of 'cost down measures' (a wonderful Asian turn of phrase) having been already exploited. Very simply, as margins fall it is more difficult for shares to rise.

This will therefore be a more challenging investment environment, but one which we feel our investment process is built to cope with well. The basis of our stock selection is rising ROCE and cheap valuations. In addition we feel the resilience of many of our themes in the face of the broad correction this month has been heartening. We also have the freedom only to invest where and when we feel absolute return opportunity lies. We do not underestimate for a second, however, the less benign period which likely still lies ahead.

Nuclear/ Uranium

There has been a growing number of voices saying the un-say able; that nuclear power is the best solution to the problem of global warming and greenhouse gas. What is interesting is that the voices in agreement come from interests as varied as the Australian Prime Minister, John Howard, to Patrick Moore, an original co founder of Greenpeace. Their conclusion stems from the growing realisation that the need to reduce carbon emissions is now critically urgent – and that nuclear energy is the only large scale, cost effective, safe solution that can provide the power required. Indeed, with current technology it is estimated that a wind turbine takes 11 years to pay back the original energy investment needed to build it, but a nuclear power station takes just 4 months!

Asia is near the forefront of the push towards nuclear fuel, with China planning 50 new reactors. Globally, a total of 178 new plants are either under construction or are proposed. This represents a 40% increase over the 441 existing plants (supplying 16% of the world's electricity).

Needless to say, the increasing interest in nuclear fuel comes after a generation of under investment in new uranium capacity. Indeed, demand already outstrips supply, with mined uranium supplying only 60% of global need in 2004. Stockpiles are therefore falling with a general world shortage forecast by 2013. Although uranium is as common as tin or tungsten in the Earth's crust, it is complex to extract. For example, the only new mine planned, Cigar Lake in Canada, has been under development for 26 years.

Eight companies in five countries supply 85% of the world's demand for uranium which is worth about $6.5billion per annum at current prices. 40% of the world's known uranium is in Australia.

ERA is the largest uranium miner based in Australia, and the worlds 3rd largest after Cameco & Cogima, producing 11% of the world's supply. The company presently has sold forward the bulk of the Ranger mine output realising a Uranium price half of the current spot price. However, after conversations with management, we believe change is afoot in contract structuring. Uranium is such a small percentage of a reactor's cost that power operators are becoming more insensitive to price but far more sensitive to reliable long term supply. We expect ERA's realised price to rise significantly going forward. The fact that ERA is an arm of Rio also brings comfort from a management perspective especially in coping with the increasing bottlenecks affecting the mining industry.

We have also re-invested in Doosan Heavy a company we sold earlier this year when valuations rose to over twenty times forward earnings. Ten times forward earnings is a level at which we are more comfortable. Doosan attracted us initially because of its construction expertise in the nuclear and desalination industries.

We have now visited the company three times and can already see the change in management style initiated by McKinsey three years ago which we call "profitable growth". EVA at Doosan is not a word that the IR team has learnt yet but it is a term in which we think the CEO believes. In addition, parent Doosan Corp is in the process of hiring a foreign CEO to head the old chaebol; this is quite a dramatic move for Korea. Industry change and change at a corporate level therefore appear to exist in this investment opportunity at the right price – that's what we look for!

Food, yet again!

A chance hearing of BBC Radio 4's Farming Today (yes, we are quite sad) highlighted an open letter (see www.nfu.ca) to Kofi Annan from Stewart Wells, President of the National Farmers Union in Canada, detailing his concerns about global food supply. Wells pointed out that every year we are now consuming more food than we are growing. In 2000, we had 116 days of global food supply. This has now fallen to 67 days and will fall, according to the US Department of Agriculture, to 57 days by the end of 2006. It is difficult to put these statistics straight into context. However, Wells describes this as 'a chilling situation' given that the decline in food supplies is steeper than at any time in the past 100 years. In addition, whilst food stocks are at levels last seen in the 1970s, unlike then, unprecedented levels of fertilizers are used, little land is left fallow, production has been maximised and a record area is being irrigated. So, despite the fact that we are pushing our land's production capacity close to its limit, production is already failing to keep pace with demand. With fuel crops also now competing for agricultural resources, a big rise in food prices must be not far off.

Our search for companies within this industry has unearthed a wide range of interesting opportunities and those we currently hold fared well during May's difficult markets. What is especially refreshing is that many of the companies we have been meeting with already have tight operating procedures and are generating surprisingly good returns yet are still relatively unknown. In short we like the companies from a bottom up perspective notwithstanding any potential change we see in the overall industry.

Nationalisation of resources

Whilst this should be the best of times for the oil and commodity majors, aside from the rising costs of equipment and engineers, one major concern is how they will replace their reserves. Oil and resource companies have long reaped the benefits from operating in politically weak, resource rich countries. However, the worm is now turning quite fast. Leading the way has been Venezuela's Chavez who is demanding a larger share of the revenues generated from his country's oil reserves. Bolivia, Libya, Equador and Peru have followed suit whilst Russia and Iran are flexing their new found power in the international political arena. Indeed, past production sharing agreements typically gave oil companies 80% with a 20% royalty paid to the host country. Now, with the balance of power firmly shifted to the reserve owning country, this is going into reverse.

Nigeria is a particular concern and looks poised on the brink of civil war. Over the last 25 years, Nigeria earned $160bn in oil revenues whilst per capita income more than halved. Anti government rebels, having taken a generous slice of oil revenues, have equipped themselves to a level so sophisticated that even the UK's SAS has allegedly refused to become involved in quelling their power. This is particularly important given that the US expects that the current 2.5 million barrels of Nigerian oil production a day will double by 2010 and that total production from the Gulf of Guinea will provide 25% of US crude demand by that time.

Elsewhere we are hearing almost daily of countries slapping windfall taxes on resource companies. Today, for example, it was China's gold companies which were targeted. Before that, we have seen Mongolia approve a windfall tax on minerals mined in the country. Tanzania is also looking at its mining laws.

The points that emerge from all this are potentially serious. First, the cost of obtaining supply for non resource rich countries is likely to remain high. For example, in 2005, China National Petroleum paid $4.18 billion for the major Kazakhstan oil company, Petrokazakhstan. This was the biggest foreign acquisition ever made by a Chinese company. It then paid over $700million for a pipeline, which, once up and running, will supply some 8% of China's current oil needs. Since the completion of the deal, the Kazakhstan government has forced the Chinese company to re-sell one third of its acquisition to a state owned company. This stake will be paid for by future revenue. Of course the Chinese company had no choice – it needs this supply at any price. Second, the supply and ownership of key resources means geopolitics will become more complex. The massive pendulum swing towards globalisation that we have enjoyed for the last few decades may well be turning. Adding to what we believe to be additional pressures stemming from local needs for food and water, the backlash could be sudden and severe.

Taiwan

We have recently seen in parliament a DPP legislator 'eat' the proposed cross Straits Bill (we kid you not). No surprises the bill was subsequently delayed. President Chen has fallen from favour in dramatic circumstances, amid murmurings of corruption, and he has relinquished party responsibilities to Premier Su for the up and coming Kaohsiung elections. Overnight, he has lost two of his most longstanding advisors, signalling further erosion of his position. Su continues to push for direct links with China, including tourism, and market expectations continue to grow. We have written on Taiwan in virtually all our bulletins, reflective of the enormous changes we see taking place there. In the future doubtless there will be speed-bumps but we see these as opportunities. We are therefore continuing to build a substantial database on those Taiwanese companies we like both from an industry and management perspective.

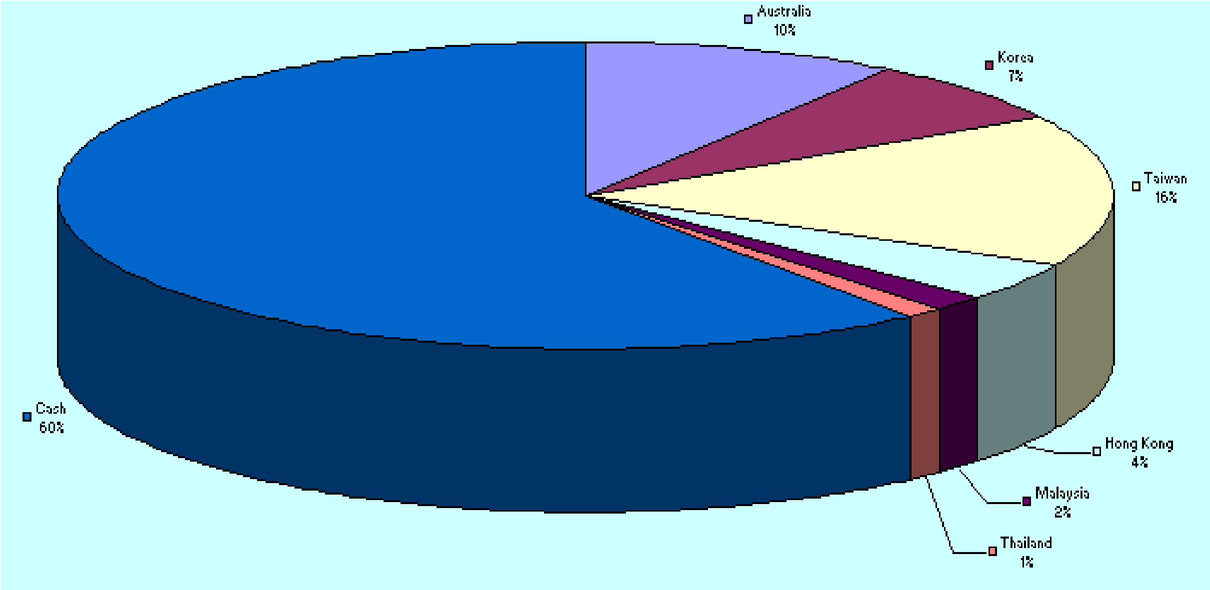
Ex cash the portfolio is trading on 10.4x 07 with an ROE of 19% and earnings on Prusik forecasts to grow by 17%.

As mentioned Heather is in Malaysia & Singapore this week and Ed will be visiting Taiwan (again) & China towards the end of June.

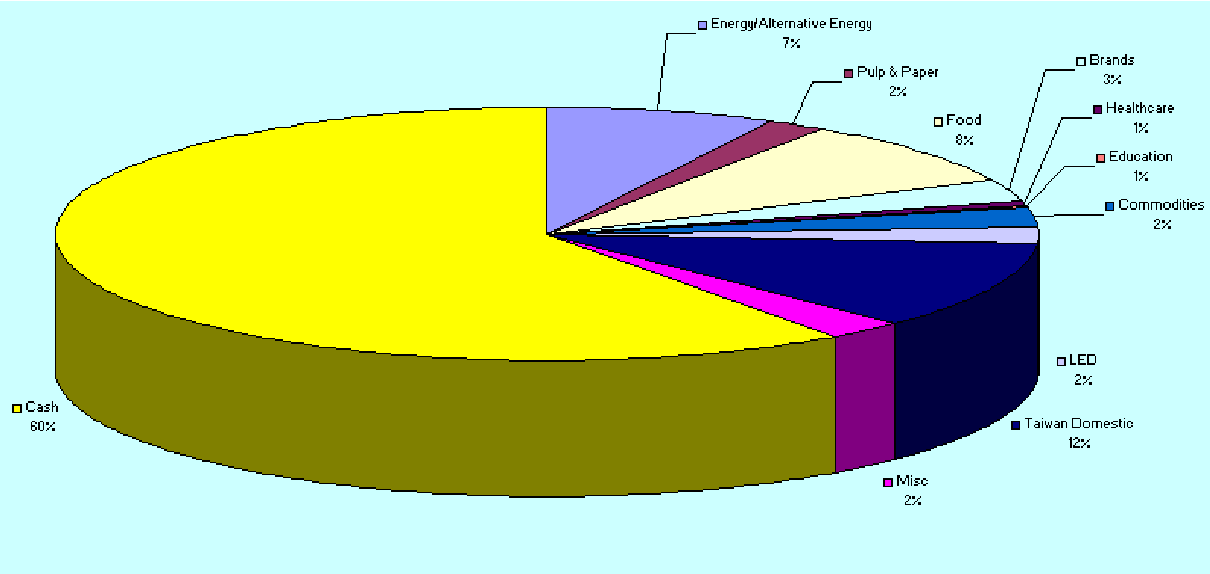
Top 5 Holdings	%
ABB GRAIN LIMITED	2.3%
ADITYA BIRLA MINERALS LTD	2.3%
KOREA COTTRELL CO LTD	2.1%
SYSGRATION LIMITED	2.1%
CHINA LIFE INSURANCE CO LTD	2.0%

Number of holdings	29
Percentage of Fund invested	40%

Geographical Distribution



Distribution by Theme



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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