

# Prusik Asia Fund Plc

FSA Authorised  
Recognised Schedule 5



## Prusik Investment Management LLP

*An Independent Asian specialist investment manager*

### NAV Updates

Series	31st August '06	MTD	YTD
Class A	126.31	+0.02%	16.03%
Class B	126.31	+0.02%	16.03%
Class C GBP	68.38	-0.28%	

Fund Size \$86m

### NAV Update 31st August 2006

Class A USD	
Non distributing	USD126.31
Class B USD	
Distributing*	USD126.31
Class C GBP	
Distributing*	GBP 68.38

The fund price rose marginally in August as the portfolio navigated its way through Q2 / H2 reporting season. The bulk of our holdings reported above or in line numbers but unfortunately two let us down and this has impacted performance. One, which transgressed our corporate governance standards, has been sold and will never appear again while current management prevail. The other Downer, which disappointed due to an unexpected sizeable provision, we held onto as it fell to a ridiculous valuation. A reasonable recovery has already been made. We have met this company's management here again this week and are satisfied that this will not be repeated and that the underlying business is going well.

In general, our investments and those companies we follow closely are, barring a few cost pressures, reporting trading conditions which we could describe as "par". Indeed there seems to be no disruption to the cyclical strength that one expects to start finding in late summer. Moreover some indicators such as dry bulk rates have risen to unseasonally high levels – we spoke to Pacific Basin and Thai Thoresen to dig deeper into this anomaly – the explanation, Chinese, Indian and Middle Eastern trade.

Thai Thoresen runs only one of its 75 boats to the US (cement to New Orleans of course) highlighting the rising tide of intra Asian growth. We view this as very important and a positive sign for the future.

### Debt

As you know we very rarely comment on macroeconomic conditions, preferring to seek new ideas in industries which are changing and have drivers which are not dependent on the economic environment. However, our method of discovery uses the observation of anomalies to pin point these changes early and sometimes anomalies appear in macro data which bear comment.

For what its worth therefore, here are some recently printed statistics which caught our eye. In the UK, personal debt, which in total stands at well over £1.2trillion, is rising fast (interestingly especially amongst the over 60s). There are now clear signs that people are over stretched. Over 105,000 people called the National Debt Helpline between January and April this year, up over 30% on last year. Insolvency Service figures show that over 26,000 people became bankrupt between April and June this year, an increase of over 60% on last year.

The average amount owed by a woman in debt now stands at a staggering £25,155, whilst the number of people who have become 'super-indebted' (i.e. those owing over £100,000 on credit cards) is at a record high. These numbers are a concern because they are occurring in a fairly benign environment. In the US, the consumer is also showing some distress. Aside from the now well worn concerns on housing, credit card, mortgage charges and home foreclosures, the property taxes levied by counties and municipalities, which are the biggest source of revenue for local governments, on average, have risen by 24% nationwide over the past year. Police in Lynnwood, Washington and Seattle report that they find, each night, over 20 cases of people living inside their last major possession, their car.

This is a possible future concern for Asian companies which are exposed to exports, commodities and technology included. In the fund, we therefore remain very focused on domestically driven growth and specific themes.

### **Clean environment**

With pollution in Hong Kong now reportedly affecting its popularity as a business location, this theme remains very strong. However, opportunities to gain exposure to it remain limited.

Sino Enviroment reported much higher than forecast average sale prices for its toluene recycling machines. Our analysis suggests this company's ROE will rise to over 40% in 06 and, in spite of the cash building up on its balance sheet, will remain at 30% plus. Not bad for just over 10x 2007 earnings.

Korea Cottrell, on the other hand, reported some slightly disappointing numbers for Q2 and the stock retraced nearly 20% having been one of the region's best performers in Q2. We have, since then, spent around three hours talking to the company and have had numerous email exchanges with management. We are now doubly confident that this remains one of the highest quality and most cheaply valued operators in the emissions control industry.

### **Medical (again)**

Chinese hospitals are being weaned off profiting from drug sales and are being encouraged to generate revenue from using preventative products. Here in the UK, and also in the US, labs are sprouting up offering, for the not entirely affordable sum, we admit, of £750, full blood screening for deficiencies and markers for hundreds of factors from mineral deficiency to more complex problems within the digestion and nervous systems. We strongly believe however that these will become more widely used in future.

Correction of an imbalance early before it causes a chronic problem will ultimately save far more than the cost of the test and will also surely become the preferred route for the patient. We expect some resistance from the western drug companies who could lose from this shift, or may jump onto the band wagon instead. However, in Asia, we believe that it will be quickly adopted, especially as it is more attuned to the culture of Asian traditional medicine. In Japan, the Healthcare Insurance Act was passed on June 24<sup>th</sup>. This requires all individuals between the ages of 40 and 74 to undergo regular health checks by 2008.

We are continuing to search for more companies which are involved in this area of medicine and will report back.

## **Taiwan**

Taiwan still offers some of the better value and least owned opportunities in Asia. However, sentiment has recently taken a break from the euphoria over a potential thawing in the cross straits relationship. Principally the cause of this has been the expectation of a major anti government demonstration and fears of violence between this group and another pro government rally in the capital. We are not expecting things to become out of control and see any weakness as a potential buying opportunity.

Technology stocks have been very strong latterly, largely on the back of continued strength in mobile phone sales, driven by cheaper prices and Emerging Market demand (now 60% of the market). Mobile phones are almost becoming a consumer staple and growth is likely to remain very strong. For example in China over 70% of the population now lives within coverage of a mobile phone network but mobile penetration is only 40%.

## **Outlook**

We are aware that the Fund price has remained rather static as shares recovered a little over the summer. It is disappointing in the short term but first we are hardly seeing a surfeit of opportunities and second, with some companies we are, already, lightening our holdings due to valuation.

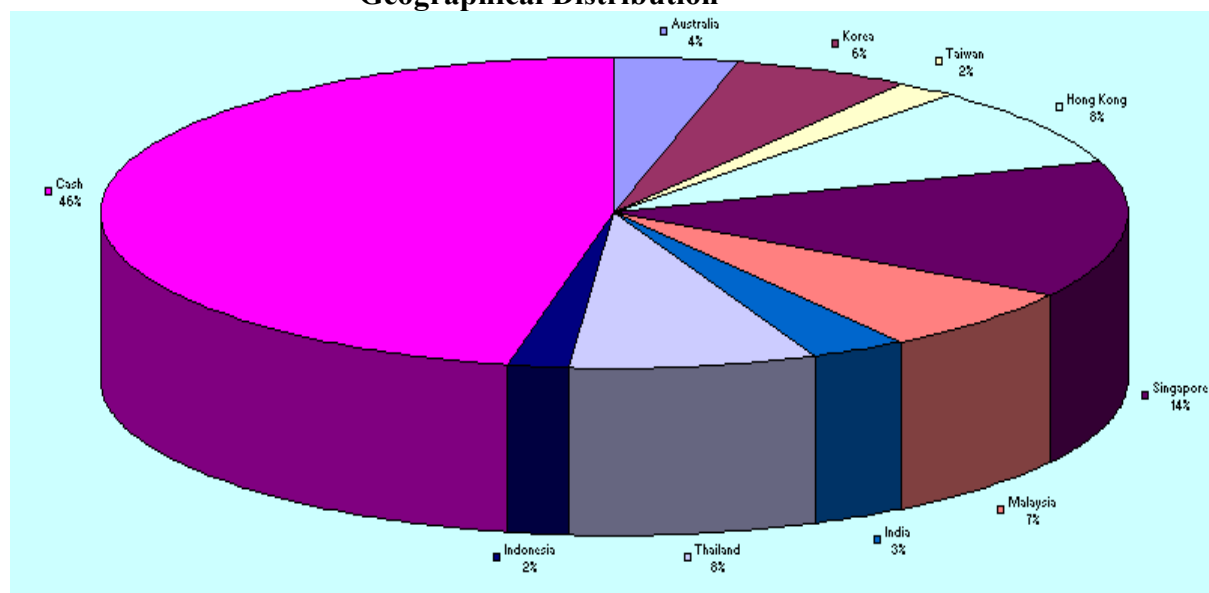
The portfolio PE's has risen to nearly 15x 07, partly due to the inclusion of some companies which traditionally we value more against their assets. Earnings are forecast to grow at 31% and ROE has risen to 24%.

Heather is travelling to Asia (Hong Kong and Taiwan) next week, followed by Ed a short time after.

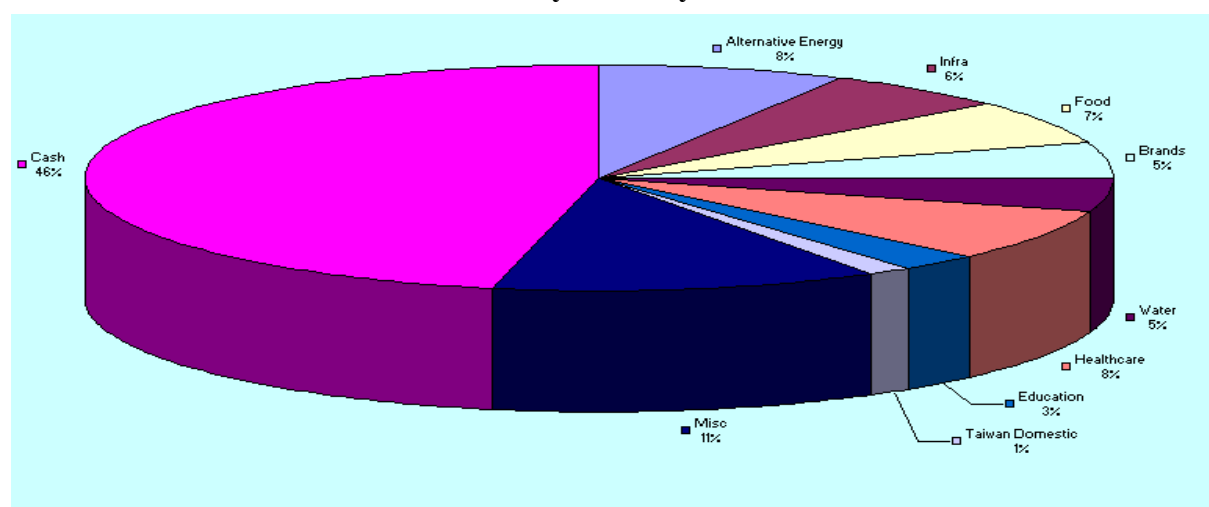
<b>Top 5 Holdings</b>	<b>%</b>
CITY DEVELOPMENTS LTD	4.1%
SIAM COMMERCIAL BANK PUB CO	2.8%
KUALA LUMPUR KEPONG BHD	2.7%
RAFFLES EDUCATION CORP LTD	2.5%
KOREA COTTRELL CO LTD	2.2%

Number of holdings 35  
Percentage of Fund invested 54%

### Geographical Distribution



### Distribution by Industry



Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2005										-1.93	5.63	5.01
2006	7.7	0.09	1.8%	10.1	-1.95	-0.44	-1.72	0.02				

#### 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.

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