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*	*30th Dec '05*	*MTD*
Class A	+8.86%	$108.86	+5.08%
Class B	+8.86%	$108.86	+5.08%
Fund Size	$15.3m		

NAV Update	**30th December 2005**
Class A USD	
Non distributing	USD108.86
Class B USD	
Distributing*	USD108.86

We published our last review of the Prusik Asia Fund in mid November after our 7th October launch. A number of you have asked for an end month review to bring us in line with our peers, which we have done.

The water & clean power related industries.

Our investments in this sphere, mainly Korean, have been very profitable (we wrote on Doosan last month). Channel 4 news before Christmas featured an amazing project in the US where CO2 emissions from a North Dakota power plant were siphoned off and pumped 200 miles north into Canada, blasted into an oil well driving the oil out leaving the CO2 in its place – underground. Apparently this process is going to catch on!

Emission control is a requirement undergoing significant change and growth and, as in the example above, industry seems willing to go to extreme lengths to achieve it. We visited Korea Cottrell in October which makes rather more prosaic environmental sytems that extract sulphorous & nitrous gases, as well as ash & dust from flues – thus producing cleaner emissions. The company has set up subsidiaries & associates in China which are just beginning to contribute and recently set up a joint venture with Suntechnics of Germany to set up a solar site in Korea.

Korea Cottrell is a very small company currently, its order book is 4 times 05 sales but management now target margin expansion and higher returns as their prime objective, not revenue. This is exactly the kind of company we are keen to invest in – where there is both strong and secular industry growth & management is becoming more focused on realizing better returns. Since we bought the stock, it has had a very strong run & will no doubt consolidate. We remain positive as even after the leap in share price the company trades at only 6x 06. As far as we can see, we are this companies first foreign shareholder. We will visit it for the second time later this month.

Asian brands.

We have increased our exposure to Handsome, one of Korea's high end women's wear fashion labels, notably Time & Mine. The company neatly fits into our search for consumption beneficiaries & is we believe one of the most undervalued & potentially profitable brands in Asia. Q3 numbers showed operating margins beginning to show the effect of less discounting, a trend we think will continue as demand increases. Its selling prices are on average 4-5x its manufacturing costs – industry average is around 3x. It is soon to dip its toe into the Chinese market, not by rolling out a huge store network but by using Joyce's ADHOC outlet.
Corporate Governance is improving at Handsome and whilst ROE is held back by a balance sheet bloated with cash, equities & bonds, herein lies the opportunity as management tackles this. Inditex (Zara) trades at 7-8x book, with forward valuations around 17x & ROE nearer 30%. Even after the strong share price move Handsome is trading 10x 06 & barely at a premium to book.

Another deeply undervalued regional consumption story lies in Aussino, a Singapore listed bed linen design company with large and growing exposure to China, as well as Asia, US and Australia, and an already well recognized brand name. Here again margins are rising due to better product mix and distribution whilst revenue growth is likely to top 30% cagr in the foreseeable future. Aussinos China business alone trades on a PE 5x Dec 06 with the rest for free. This seems to us an extreme discount to PE s of 20x one has to pay for some pure China consumption companies currently and we are optimistic this will be recognized in 2006.

Life insurance

We have also been adding companies within the life insurance industry outside Korea (Hanwha Corp) - notably Chinese life companies. We have carefully studied the Indian sector but can't justify the demanding valuations – which again make Korea look cheap.

Resources.

Resource prices have once again been very strong and we believe that the bulk of the drivers behind their rise remain. Rather more exciting, we think, is how management at some of the, mostly Australian, resource companies are becoming increasingly shareholder friendly. Rio Tinto continues to be the trailblazer, re-purchasing nearly USD1.5bn of its own shares last year, it looks set to repeat this again in 06 and push its payout ratio even higher.

Technology and Taiwan.

Finally we return to Taiwan. Heather visited Taiwan for a week in November. We were drawn to it from an industry, valuation (at historic lows) and single company perspective. We believe revenues at some of the manufacturing companies, driven by strong demand and a huge, new outsourcing trend from Japan are still hugely underestimated by the research community & the potential for margins to rise in the immediate future as capacity utilization rises, not recognized at all. Our investment process kept on throwing up ideas in an industry which still sends a large proportion of professional investors into a rabid vortex – namely some technology companies – many of which have provided us some of the strongest returns in the region this quarter.

Since then other forces of change have started to blow through Taiwan, starting with a victory for the opposition party in the Mayoral elections discussed last month.
The potential for Taiwan is best encapsulated by the example of the simple success of Taiwanese owned Foxconn which is listed in Hong Kong and which, having risen threefold since listing earlier this year, now has a market capitalization of over a third of its parent & commands a superior multiple. Foxconn went overseas to escape restrictive business policies imposed on Taiwan domiciled companies by the Taiwan government, in particular on investment levels in China.

We await with interest the unfolding of a change in government attitude towards China vis a vis travel, business investment and inward tourism from the mainland, which will be forced by the pressure of the full presidential elections due in 2008. It will not be a straightforward or fast journey but we believe in a real sea change in the political arena in Taiwan is now underway. Business & prosperity are vote winners there, as in many Asian countries. Such potential for positive political change in a country where we also see rising corporate returns makes us very excited for 2006.

Portfolio valuation

Our portfolio will enter 2006 into the usual hailstorm of noise on the sustainability of the worlds largest economy. That portfolio has a 1 year forward price earnings of 12x, on consensus earnings, on Prusik's forecasts it is 11x. The ROE on the portfolio is 22% with earnings growth forecast above 17%.

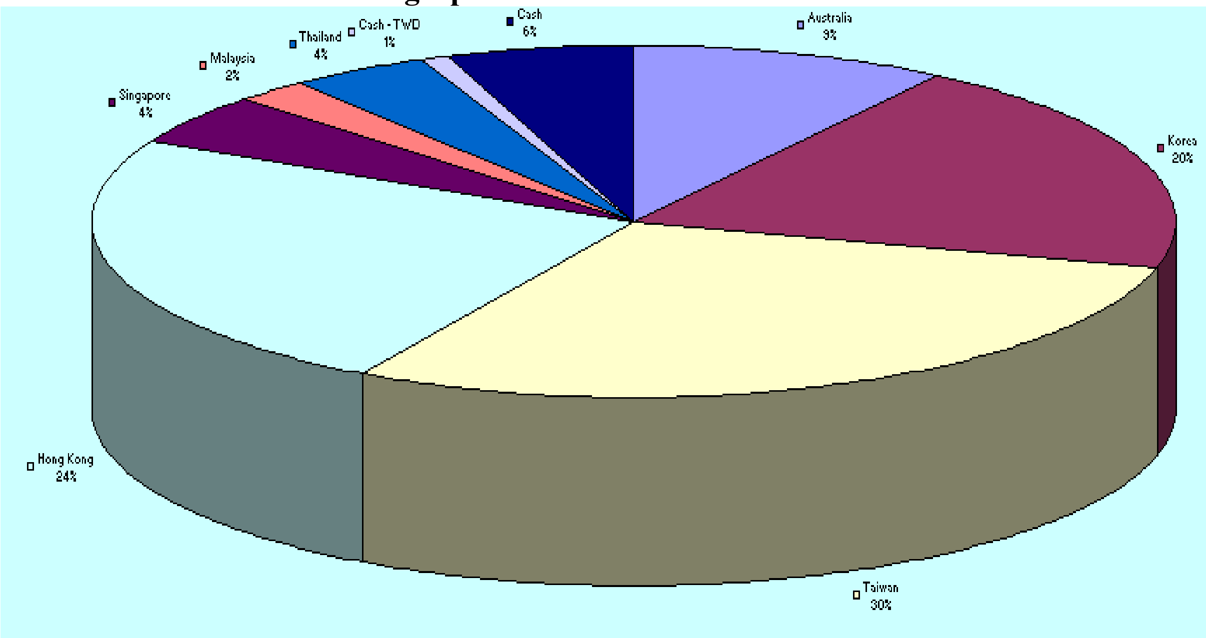
Relative to the MSCI Asia ex Japan the portfolio enjoys a 10% PE discount but a considerable 60% earnings growth & ROE premium. We intend to stick to our discipline of selling overvalued stocks & trust that will enable us to ride out any headwinds.

Heather will visit companies in Shanghai & Seoul in 2 weeks time & Ed goes out to Taiwan & India in February. We shall report back.

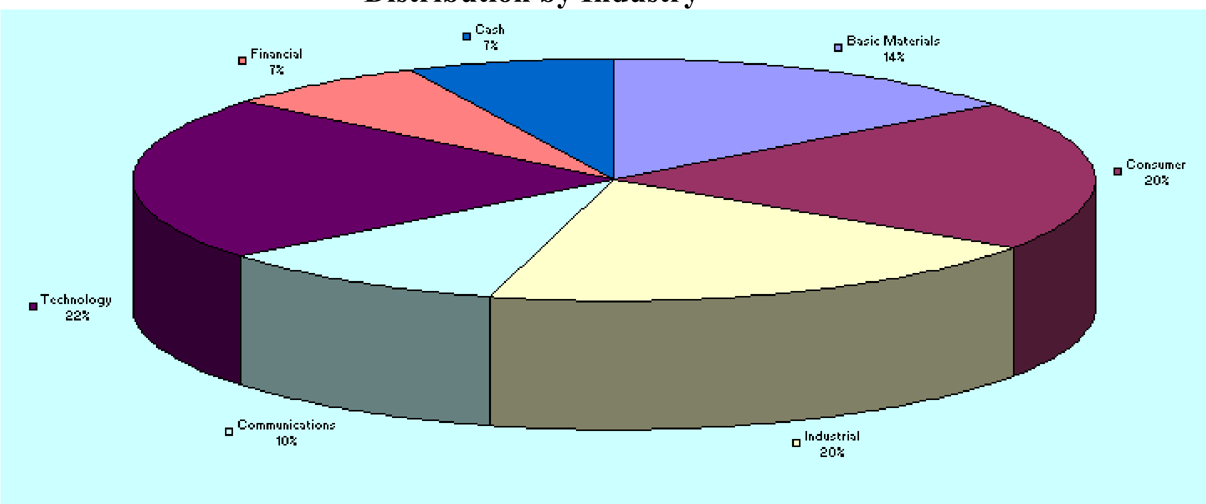
Top 5 Holdings	%
Rio Tinto Ltd	3.7%
Doosan Heavy Industries	3.6%
Compal Communications	3.3%
Handsome Co.	3.2%
Hanwha Corporation	2.9%

Number of holdings	37
Percentage of Fund invested	93%

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

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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