Prusik Asian Smaller Companies Fund Plc

Prusik Investment Management LLP

An Independent Asian specialist investment manager

NAV Updates

Series	*June '08*	*QTD*	*YTD*
Class A	93.42	-5.98%	-6.58%
Class B	93.42	-5.98%	-6.58%
Class C GBP	47.22	-5.47%	-5.21%

Fund Size $15m

NAV Update	**June 2008**
Class A USD	
Non distributing	USD93.42
Class B USD	
Distributing*	USD93.42
Class C GBP	
Distributing*	GBP 47.22

The Prusik Asia Smaller Companies Fund was born in February into a very harsh environment for smaller companies. At launch, we could already see tremendous value and opportunities in this asset class. However, even when accompanied by stable and strong earnings, this has not necessarily resulted in predictable or stable share price performances in every case.

Our aim was and is to have a fund ready to invest as attractive opportunities present themselves believing that value would continue to emerge as the year progressed. We feel that this plan is unfolding as expected. However, we are still in progress towards the final denouement. While many small companies we like are already extremely cheap on any measure, what singles this period out from many others is the vicious and unpredictable nature of deleveraging.

We have managed to maintain our conservative approach to illiquid holdings as we are still able to sell most of our small companies within two days and thereby not risk disturbing the price too much. However, many smaller companies are held by investors with an urgent and aggressive need to sell regardless of the underlying quality and value of their investments. Such situations are giving us some good buying opportunities, some of which we have taken advantage. However, it also means we have maintained an element of caution and have resisted becoming fully invested so far in such a randomly difficult environment.

Thematically, we are very excited about the Prusik Asian Smaller Companies Fund. In general, having access to smaller companies has widened our ability to gain access to themes such as timber, netbooks, agriculture, power transmission and distribution, water, waste gas treatment and automation. For example, our recent foray to Singapore to research water treatment and other aspects of investing in the environmental clean-up in China has brought to light some really exciting companies with awesome, and we think safe, growth outlooks at attractive valuations.

We believe that, once the deleveraging passes and stock markets become, once again, more fundamentally driven, the share price performances of such companies, and others with similarly defensive earnings profiles which we have chosen, will start to really stand out against the more cyclical businesses. Once stock markets have settled

Prusik Asia Fund plc (the "Fund") is an open-ended investment company with variable capital incorporated with limited liability in Ireland under the Companies Acts 1963 to 2005 with registration number 407740 and established as an undertaking for collective investment in transferable securities pursuant to the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations, 2003, as amended).
Prusik Investment Management LLP is authorized and regulated by the Financial Services Authority(FSA).

into a more discriminating and fundamentally based investment mood, we think that the prospects for our small cap investments therefore look extremely promising.

Agriculture

Like the Prusik Asia Fund, we have looked within the Prusik Asia Smaller Companies Fund to build exposure to the positive impact of rising agricultural and soft commodity related prices. The fund has direct exposure to rising soft commodity prices via its investment in a number of the SE Asian timber companies like WTK and Ta Ann and, indirect exposure to the impact of rising agricultural prices and incomes via seed supplier, Bisi International, Indonesia's leading supplier of hybrid seeds, and China Farm Equipment, a PRC-based supplier of agricultural equipment.

Plywood

Unlike many of its fellow soft commodities like palm oil, rubber and corn, plywood prices have so far, failed to participate in the soft commodity surge to the detriment of the ASEAN timber companies. The principal reason for this has been the collapse in Japanese housing starts. The Japanese housing industry is the key source of demand for ASEAN manufactured plywood.

In 2007, Japanese housing starts declined heavily as a result of the domestic construction industry's struggle to comply with a new, more complex set of building regulations. At their lowest point in September 2007, annualized housing starts were down 44% YoY to below 1.1million units, the lowest in 40 years. As a result, Japanese plywood imports tumbled 18% YoY in 2007. However, Japanese housing start trends have already started to stabilize and channel checks suggest that plywood inventory levels at the Japanese trading houses have now returned to more normalized levels, around 1 month only versus 2.5 months in November 2007. As of the latest data for April, housing starts in Japan were still declining YoY, down around 8.7%, but at a much lower rate, and were rising MoM, up 16.6%. Were Japanese housing starts in 2008 just to return to the more normalized levels of 2006, this would imply a 20% rise YoY.

As a result, we are seeing the first signs of recovery in the plywood price. In the first two months of 2008, the plywood price rose 2-3%. Ta Ann management confirmed that indicative prices rose 6% MoM in March. By May, industry sources indicated that prices had risen a further 22%. The share prices of many of the Malaysian timber companies like WTK and Ta Ann, the former trading at around book-value and both trading on barely double digit current earnings multiples, do not yet appear to reflect any significant expectations of a recovery.

Hardwood

Hardwood, generally, is now showing signs of real shortage. A combination of Russia ceasing to export raw logs and imposing an export tax, which will rise from 25% to 90% by January 2009, and an effective crackdown on illegal logging in Indonesia has already seen the traditional pricing gap between softwood and hardwood narrow by 50% this year. We are hearing reports that furniture makers in Indonesia are closing due to lack of raw materials and Chung Hwa Pulp in Taiwan indicated that its imported raw material costs of woodchip, having risen 20% YoY last year, exceeded this rise again in 1H 2008 alone.

Bisi, Indonesia's principal seed supplier

Bisi is Indonesia's dominant provider of hybrid seeds, notably for corn and rice but also for vegetables and fruit. We think that Bisi's growth prospects are leveraged into two powerful, inter-related themes.

First, use by farmers of Bisi's hybrid seeds generates significant improvements in productivity and profitability. Bisi estimates that its hybrid corn and rice seeds expand yields by 89% for corn and 67% for rice. Even after taking into account the extra costs, notably higher seed and fertilizer costs, generated by the use of hybrid seeds, Bisi still estimates that the profits accruing to farmers from the use of their seeds will expand by 173% for corn and by 98% for rice.

Second, rising rice prices should act as a stimulant to adoption. Farmer's rising income and the Government's desire to encourage the use of hybrid seeds via subsidies to increase agricultural productivity in Indonesia should ease concern that the higher required upfront seed cost will prevent adoption. Positively, hybrid rice utilization in Indonesia is still very low, 0.1% per hectare, well behind Vietnam and China at 82.6% and 54.4% and behind even Bangladesh and India at 4.2% and 2.3% respectively. Precedents elsewhere suggest that adoption can be rapid. Over the last five years, according to Bisi, adoption rates in India, Bangladesh, the Philippines and Myanmar have enjoyed CAGRs ranging between 40% and almost 160%.

Positively, barriers to entry appear to be considerable. First, the need to adapt seeds to suit local climate and soil conditions, a process which can take many years, gives the products of a local player like Bisi a major competitive advantage versus off the shelf imported products. Second, Bisi has a long and, in Indonesia, exclusive arrangement with Monsanto to adapt its products for use in Indonesia. Third, in a fragmented market, Bisi has a strong brand name and distribution network.

As a result, we expect Bisi to grow strongly in the medium-term. Interestingly, Bisi has already significantly raised its guidance for FY12/08E and FY12/09E. Gross profit forecasts have been lifted by 45% for FY12/08E and 27% for FY12/09E. However, we sense that company guidance is still not that aggressive. 2Q-4Q FY12/07A sales amounted to 85% of annual sales. Within the company's guidance, 2Q-4Q FY12/08E sales are forecast to account for only 75% of full year FY12/08E sales in spite of the new hybrid rice seed sales being heavily biased towards 2H FY12/08E.

Bisi is no longer a cheap stock. Based on the company's guidance, Bisi is trading on around 34.8x CY08E, 24.2x CY09E. However, if we were to assume a FY12/08E sales split more comparable with that of FY12/07A, 80% of sales in 2Q-4Q FY12/08E, and gross margins more comparable with those of 1Q FY12/08, this would give scope to raise FY12/08E forecasts by around 25%. In such a scenario, Bisi would be trading on a more 'reasonable' 27.9x CY08E forecast earnings. Given the strength of the story, and comparable valuations in the sector globally, we think that the market will likely be willing to subscribe a very high valuation to Bisi, a point at which we have probably not yet arrived.

Rising rural incomes in the PRC

At a recent meeting with China Yurun, China's biggest slaughterer and processor of hogs, we heard evidence of the rise in rural incomes in China. Yurun's management estimates that, currently, a hog breeder is making a gross profit of round Rmb 800 per hog. Even after higher feed costs, a farmer's input costs still amount to around Rmb 1,000 only. In addition, in order to encourage hog breeding, the PRC Government is providing around Rmb 100 worth of subsidies in the form of insurance and tax exemptions on breeding sows.

Rising agricultural commodity prices in China are therefore likely boosting rural incomes significantly. In conjunction with Government subsidies designed to encourage mechanization and an ageing rural population, this should create favourable market conditions for demand for agricultural machinery.

The fund is therefore invested in China Farm Equipment, a Singapore listed manufacturer of combine harvesters, diesel engines and plough machines. We believe that CFE should offer direct exposure to rising rural incomes and to the Authorities' desire to increase rural productivity.

The PRC Authorities are keen to stimulate agricultural mechanization. Between 2004 and 2015, the Government is targeting to raise mechanization from 6.8% to 45% and mechanization of harvesting from 29.3% to 80%. The Authorities budget for subsidies relating to mechanization to farmers rose from only Rmb 70m in 2004 to Rmb 1.2bn in 2007 and will likely rise further in 2008E. As a result, the PRC Authorities are, in 2008E, offering a cash subsidy to farmers on machinery purchases of Rmb 10,500 per unit, up from Rmb 7,000 per unit the previous year.

In spite of a 7% rise in the ASPs of CFE's agricultural machinery in 2008E to cover rising raw material costs, the average cost post-subsidy cost to the farmer of CFE's machinery has therefore actually fallen. In combination with rising grain prices, CFE believes that the payback period on its machinery for the average farmer has declined from around two years to only one and a half years.

China Farm Equipment is therefore leveraged into three themes, rising soft commodity prices, an ageing rural population and Government spending, all of which seem attractive to us in the current economic circumstances. At the current share price, we think that the company is still trading on barely 7x current earnings.

Water and the environment

As has long been the case with the Prusik Asia Fund, we have continued to look for opportunities for the Prusik Asian Smaller Companies Fund to invest in companies which will benefit from Asia's need to clean up the environment and to maximize the efficient use of its limited water resources. While this is not by any means a new theme for us, we sense that the water theme will take on a significantly enhanced profile in coming months as investors start to make the connection between water availability and soft commodity price trends.

For thousands of years, water has been readily available from rivers or wells. A combination of population growth and climate change coupled with uncontrolled use of 'fossil water', which has taken centuries to accumulate in underground aquifers, means such sources can no longer be relied upon. The world now faces an interesting simultaneous equation which needs solving urgently. We need energy to source water, we need water to grow soft commodities and we need soft commodities to provide food and alternative energy. To grow more soft commodities to provide more food and energy, we therefore need more water …which will require more energy …. It is a complex and delicate equilibrium.

In the meantime, only half the world's people have access to piped water but 10% of all diseases could be prevented with better water sanitation. In recent weeks, London has ordered a desalination plant while every major city in Australia either has or is planning one. Barcelona is shipping in water by the tanker load. Indonesia plans to spend Rph 84 billion connecting 10 million people to the water supply over the next three years. In China, over 90% of groundwater is polluted in many cities while four hundred out of China's six hundred and sixty cities suffer water shortages. Earlier this year, over twenty nuclear power plants in the US faced shutdowns or reduced operations due to a shortage of cooling water. We could fill a page with such anecdotal evidence. As a result, the speed and size of the requirement for water related treatment, distribution and transmission facilities is escalating at a breathtaking pace.

Water has long been a theme to which we would have liked to have greater exposure. However, many of the listed companies in Asia in the sector appeared to possess limited intellectual property and, as a result, suffered steep declines in margins as competition has flooded in to the market (sorry). Sector share prices have therefore tended to perform poorly.

Two weeks ago, Prusik attended a conference on water followed by two days of visiting companies in the region operating within this sector. The conference, intended for the industry and attended by virtually none of the investment community other than a couple of water funds, was a fantastic way to begin to understand the emerging technologies, meet all the major water companies from around the world, including several new operators in Asia and to get to grips with what we should be looking for from an investment perspective. We had a sense that this was a theme which was about to re-emerge with a vengeance.

Judging by what we heard, this is undoubtedly another area where governments and industry alike are being urgently forced, by necessity, into huge spending. General Electric, for example, has pledged to cut its water usage worldwide by 50% by 2012. This is, positively, an area where we think that demand is unlikely to wane regardless of economic growth. We therefore feel it is also very defensive. At the same time the technology shifts in water treatment and management are huge and we believe that we will start to see the emergence of water as a globally priced commodity. The impact of free for all competition is also now revealing a few clear cut winners. We think that the potential investment opportunities are big and exciting. We will write in much greater detail on this in the next Quarterly. However, in the meantime, if you are in Singapore or Australia, look out, you may be drinking NEWwater*. It is the latest thing in water recycling, drinking water recycled from raw sewage in 8 simple steps!

The Prusik Asian Smaller Companies Fund has invested in Sino Environment, a small company we bought at IPO in 2006 for the Prusik Asia Fund and sold in early 2007 at over 30x then current earnings and after a 300% share price return. Since then, the share price has fallen almost 70%.

While Water related activities still make up only a small part of Sino Environment's business, they are growing rapidly. Unlike the situation two years ago, the previously overwhelming number of competitors has reduced to a smaller number of larger specialist players able to offer a strong balance sheet and possessed of the right technology.

Water EPC contracts won at Sino Environment in 1Q 2008 were worth nearly double the whole of the order book gained in 2007. The company estimates, conservatively, that it will achieve a fourfold increase in water EPC related revenues in FY12/08E and believes that the business will continue to see strong growth in FY12/09E. The urgency of demand and the recent sharp rises in raw material prices has meant pricing power is better than in the past and margins of anything up to 70% can be achieved on some projects.

Elsewhere, the company is also enjoying over 20% per annum growth in its Dust Collection division and has recently made a cheap acquisition which will double the company's turnover and add to its technology capabilities in this area.

In its De-nox and Reclamation of Toxic Chemicals from Gas Emissions division, the company will benefit from China's mandate to reduce emissions by 10% by 2011. Sino Environment believes that only half of China's existing plants have yet been retrofitted with the correct equipment. Growth YoY in this division is over 40% and the order book is full for over 18 months.

Finally, customers using Sino-Environment's kit to reclaim chemicals such as toluene, used in the dying process for textiles, will now see payback within a year on their investment as the toluene price has risen strongly along with the oil price. Sino Environment is now trading on only 10.2x FY12/08E and 8.8x FY12/09E earnings, a far cry from its average PER of around 18x current earnings since launch.

Currently, we are researching a wide range of smaller Asian listed companies with exposure to this theme. Among these companies are, for example, constructors, owners and operators of water supply and sewage treatment facilities, manufacturers of membranes to purify water and suppliers of mineral supplements to add to treated water.

Transmission and Distribution

In the Prusik Asia Fund, we have long invested in companies with exposure to investment in electricity transmission and distribution infrastructure. In particular, we have long been interested in companies which manufacture kit able to better measure and control electricity usage. Within the Prusik Asia Smaller Companies Fund, we have therefore made an investment in Wasion, China's leading manufacturer of meters with around 35% market share. Via its recent acquisition of Hunan Weiming, Wasion is also hoping, interestingly, to develop a similar franchise for gas and water meters.

Wasion should therefore be a major beneficiary of the current upgrading by China's power grid companies of the national meter system in order to improve energy efficiency. Wasion estimates that around 80% of installed electricity meters in China are still old fashioned, mechanical meters. Trends in the gas and water systems are likely similar, Given China's need to improve efficiency and the Government driven nature of the investment, demand for Wasion's products should be little impacted by the business cycle.

Wasion expects to grow its topline and bottomline by around 25-30% in FY12/08E. FY12/09E will benefit from the first full year contribution from the rapidly growing Hunan Weiming.

We think that Wasion looks very modestly valued, trading on 8.1x CY08E earnings and believe that a 12 month forward FV well above the current share price could be achievable. Even if we assume that Wasion can sustain, in one year's time, a 10x CY09E PER, modestly above its current valuation, this would still suggest upside from here of around 50%. Such a FV target still assumes a high level of risk, a discount rate of 11%, for a company whose prospects appear to be driven by a low risk, visible investment cycle and whose management appears to provide considerable transparency. A lower discount rate of 10% would suggest a forward FV target of around 11.3x CY09E earnings, upside of 70% plus.

Net-books

Low cost notebooks are now with us. This is very confusing for the market as, now, consumers can buy a small laptop with a 7 inch screen, a basic Windows and Office operating system, wireless internet capability and a decent battery for under US$200. Quanta, which we visited earlier this year, believes that this development will result in a step function decrease in average notebook selling prices. Undoubtedly, the consumer seems keen.

The Prusik Asian Smaller Companies Fund has invested in Ju Teng, a maker of plastic casings for laptops, including all the low cost models. Ju Tung reckons that 250,000 units of Asustek's very successful EEE PC and other low cost notebooks are now being shipped every month. These low cost notebooks are part of the 'one laptop per child' campaign aimed at emerging markets and pose an interesting question for those trying to estimate global notebook sales this year. In 2007, some 120 million notebook computers were sold. However, the low cost model addresses a completely new market including children and adults in emerging markets for whom gaining access to the internet is now possible for a manageable sum. It could be that notebook computer sales seriously surprise us this year and beyond given that the addressable market has just increased significantly.

Interestingly, plastic notebook casings, traditionally used for lower end or consumer notebooks, are leading a new trend as the fashion moves away from boring metal and black plastic casing more geared to the 'professional' market. Expect to see notebooks with wildly coloured and textured casings in a PC World near you soon, faux wood, faux leather or Ferrari badged red anybody? Such cases, incidentally, while designed to drive the consumer into wanting a new notebook, are also allowing the manufacturers of such cases like Ju Teng to make nearly double the margins earned on traditional black plastic cases.

China Automation

Labour costs appear to be rising strongly in China driven upwards by rising wage inflation and more strongly enforced compliance with China's labour laws. As a result, SMEs are likely increasingly to look to automate production lines. The Prusik Asian Smaller Companies Fund therefore holds a position in Chroma ATE, a Taiwan-based manufacturer and installer of testing systems with a dominant 80% market share in Asia which should be a beneficiary.

In a proprietary survey conducted in early 2008, around 40% of companies questioned indicated that labour costs in 4Q 2007 rose more than any other individual cost. By 4Q 2007, the sample group indicated that managers and skilled workers' wage costs were rising 14.2% YoY and new factory workers' wages by 10.2% YoY. As a result, more than half the SMEs surveyed indicated their intention to automate some of their production lines and almost half of them to increase their capital expenditure in 2008E in comparison with 2007 to try and protect already declining gross margins. The survey sample forecast gross margins, on average, to decline from around 15.5% in 2006 to only 12.5% by 1Q 2008.

Neo Neon, a Taiwanese owned, China based manufacturer of lighting, is a good example of a company executing exactly this strategy. Neo Neon management indicated to us that, late last year and early this year, the company had reduced its staff numbers by around 15% to 20% and started to invest in increased automation. As a result, while the company hopes to grow its top-line by 30% plus in FY12/08E, a reflection of increasing production, it is budgeting for around a 10% rise only in its labour costs, mostly a reflection of salary inflation.

Chroma ATE is Asia's leading designer and manufacturer of testing equipment. Chroma claims to have an 80% market share in the Taiwanese and Chinese markets from which it sources 85% of its sales. Its hardware product is modulised and commoditised. However, its software product is customized. Once customers have adopted the Chroma software, changing product provider requires complete installation of new software and re-training of testing engineers which costs money and, more importantly, time. Chroma claims to have never lost a customer. Chroma has no local competition and claims to have a 30% cost advantage versus its US, European and Japanese competitors.

Chroma ATE grew its sales 32% in FY12/07 and is confident that it can achieve 20%+ sales growth for the next five years. First, Chroma ATE expects factory automation to increase as manufacturers seek to reduce labour costs over the next 12-24 months. Second, Chroma ATE is continuing to expand its product range. 45% of Chroma ATE's FY12/07 sales came from fast growing new products, growing at around 30% per annum. IC and LED testing, the newest products accounted for 27% of sales. In the medium-term, Chroma ATE hopes to add automotive component and solar cell testing products. The former, potentially, will be an even bigger market than IT as auto component manufacturing moves to China.

Coal and China

Like the Prusik Asia Fund, the Smaller Companies Fund has looked to build exposure to what we still believe is a very strong regional coal story. However, rather than investing in smaller coal miners, we have instead invested in Industrea, an Australian based provider of mining equipment and services. We think that Industrea is leveraged into the expansion of mining capacity, notably coal, both in its home market, Australia, and via WADAM, in China.

Industrea's activities can, broadly, be split into three segments. First, Industrea manufactures mining related equipment like underground methane gas drainage directional drill guidance, open cut mining collision avoidance systems, specialist flame and explosion proof underground mining vehicles and other heavy underground mining equipment. Second, via WADAM, Industrea distributes underground mining equipment in China. Third, via Huddy's, Industrea provides contract mining services in Northern Queensland.

Industrea's products and services appear to have strong market positions. For example, its gas methane drainage system is the No. 1 system in the world. Both Anglo and BHP use its open cut collision avoidance systems and claim, that as a result, risk is reduced by 80%. Huddy's dominates the contract mining market in North Queensland. And while WADAM currently still has a tiny market share in a fragmented industry. Industrea thinks that WADAM's product offering is now comparable to the No 2 player in China, Bright Dynasty, which generated revenue of around US$500m in 2007.

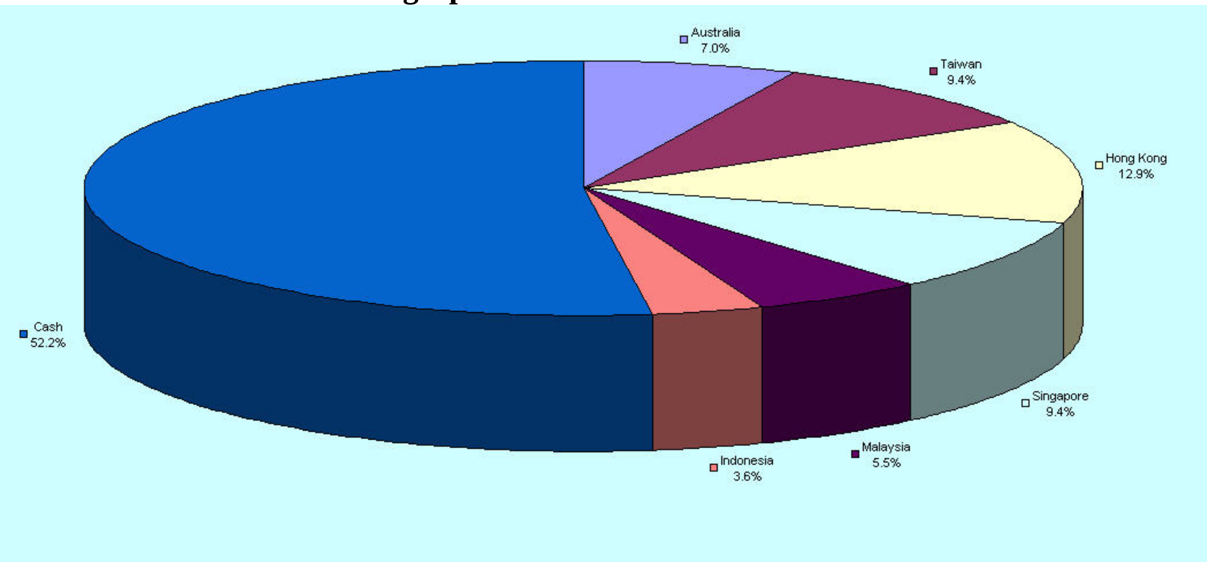
Industrea is leveraged into one of our favourite themes, expansion of coal and other mining activity, notably in China. The stock looks very modestly valued trading on around 8.3x CY08E and 7.3x CY09E fully diluted earnings.

We estimate that the invested portion of the Prusik Asian Smaller Companies Fund at end June 2008 was valued on around 12.8x CY08E earnings and a very modest 8.6x CY09E earnings.

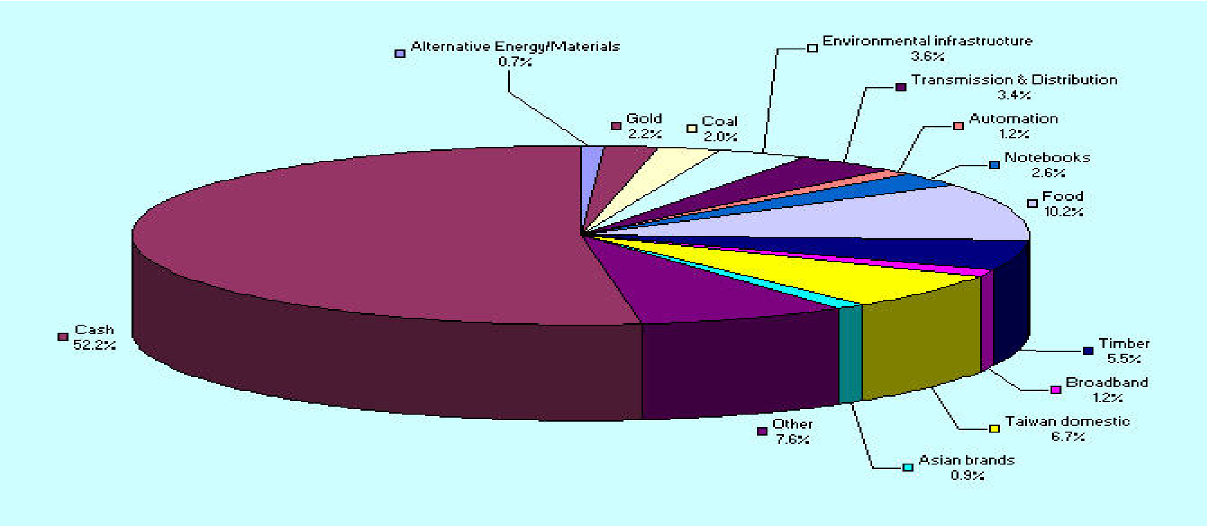
Top 5 Holdings	%
JU TENG INTERNATIONAL HLDGS	2.6%
TEXWINCA HOLDINGS LTD	2.4%
BISI INTERNATIONAL PT	2.2%
DEL MONTE PACIFIC LTD	2.2%
SINO GOLD MINING LTD	2.2%

Number of holdings	32
Percentage of Fund invested	47.8%

Geographical Distribution



Distribution by Theme



Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dev	YTD
2008			-2.44	0.52	0.26	-6.71							-6.58

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	Every Two Weeks
Minimum Subscription	USD100,000
Min Subsequent Subscription	USD10,000
Subscription Notice Period	10 business days
Redemption Notice Period	10 business days
Dividends	
Class A	None
Class B	Annual
Class C	Annual

Prusik Investment Management LLP
Third Floor, 45 Charles Street, London, W1J 5EH.
Tel: (+44) 20 7493 0929 Email tony.morris@prusikim.co.uk
Web : www.prusikim.co.uk Fax : (+44) 20 7493 1770

Manager Fees

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

This document is being issued Prusik Investment Management LLP and is for private circulation only. Prusik Investment Management LLP is authorised and regulated by the Financial Services Authority in the United Kingdom. The information contained in this document is strictly confidential. The information contained herein does not constitute an offer to sell or the solicitation of any offer to buy any securities and or derivatives and may not be reproduced, distributed or published by any recipient for any purpose without the prior written consent of Prusik Investment Management LLP.

The value of investments and any income generated may go down as well as up and is not guaranteed. You may not get back the amount originally invested. Past performance is not necessarily a guide to future performance. Changes in exchange rates may have an adverse effect on the value, price or income of investments.

The information and opinions contained in this document are for background purposes only, and do not purport to be full or complete. Nor does this document constitute investment advice. No representation, warranty, or undertaking, express or limited, is given as to the accuracy or completeness of the information or opinions contained in this document by any of Prusik Investment Management LLP, its partners or employees and no liability is accepted by such persons for the accuracy or completeness of any such information or opinions. As such, no reliance may be placed for any purpose on the information and opinions contained in this document.”