

## NEW ERA PRC FUND

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### MANAGER'S REPORT

#### PERFORMANCE

	01 July 2002 To 30 June 2003	25 June 2002* To 30 June 2002
New Era PRC Fund	6.65%	3.80%
Benchmark: MSCI China Free Index	2.67%	-0.80%

We remain positive on the long-term outlook for China. As China continues to open up with more foreign investments, the middle class will continue to grow, benefiting consumption. Cheap labour costs will also continue to ensure its export competitiveness. Although short-term growth rates may be slow after a very strong first half, they should remain healthy in absolute terms.

\* First dealing day of New Era PRC Fund

During the last 12 months, sentiment towards China turned positive as investors demonstrated belief in China's long-term economic growth potential. Economic statistics continued to surprise on the upside, with industrial output up 16.2%, exports up 34% and retail sales up more than 8% during the first half of 2003. The strong performance was despite the fact that SARS (Severe Acute Respiratory Syndrome) hit the economy badly in April and May. These figures highlight the robust performance on both domestic demand and export sides of the economy.

Positive sentiment was further supported by speculation that the Rmb would appreciate and QDII (Qualified Domestic Institutional Investor, a mechanism to allow Mainland investors to buy Hong Kong shares) would be introduced. As a result, H shares rallied 25.8% during the reporting period, as they were perceived as the best economic proxies with significant discount to A and B shares. On the other hand, Shanghai and Shenzhen B shares fell 25.5% and 9.5% respectively, with investors showing concern about QDII draining liquidity out of the domestic stock markets.

The Fund was up 6.7% during the reporting period, compared to the 2.7% gain in the MSCI China benchmark, despite its significant exposure to the B-share market. This was due to our good stock selection in H shares and selected China manufacturers.