

MANAGER'S REPORT**PERFORMANCE**

	01 Jul 2002 To 31 Dec 2002	1 Jul 2003 To 31 Dec 2003
New Era PRC Fund	-15.80%	57.09%
Benchmark: MSCI China Free Index	-13.98%	58.90%

Chinese shares were among the best-performing asset classes in the world in 2003. Investors rushed in to buy the compelling growth story, with the hope of capturing the market upside and the potential currency appreciation. There was some setback in the first half though, when SARS (Severe Acute Respiratory Syndrome) broke out, but stocks quickly regained lost grounds as the year progressed.

The Chinese economy continues to perform strongly. Export growth was strong at over 20%, highlighting the increasing market share of Chinese goods. Consumption was also strong, primarily driven by the middle class. This can be seen in the strong growth of car sales in 2003.

Compared to previous China “euphoria”, we believe the outperformance of Chinese shares that we are now seeing is unique. Unlike previous bubbles, market strength was a result of strong earnings. In the first half of 2003, H shares’ profit grew by more than 90%. In addition, the Chinese currency is also prone to appreciation.

By adopting a stringent stock selection approach, our Fund did well in 2003. Looking forward, we will continue to look for companies that can offer good earnings potential, from both the strong domestic sector and the export sector.

The fund performed well by overweighting H shares, which gained close to 120% in 2003. Amongst H shares, commodities, oil, chemical and metal shares rallied most sharply. Our execution timing also added value as we braved the odds of

the SARS crisis and increased weighting in the second quarter. Last but not least, our holdings in a number of Chinese manufacturers, like Lung Kee and Techtronic, performed extremely well. What slightly hurt performance was our underweight positions in PetroChina and Sinopec, or indeed the commodity shares.

The global economic recovery should bode well for China for 2004. However, as China shares are being re-rated, valuation is no longer at a distressed level. As such, stock picking will become very important.

Generally, we are positive on the outlook for domestic consumption. As China has one of the highest saving ratios in the world, and its consumer debt is minimal, domestic consumption should continue to grow as the country opens up. The middle class boom will also create demand for consumer products such as cars, properties and medical services.