MANAGER'S REPORT

PERFORMANCE

	1 July 2004 to 30 June 2005	1 July 2003 to 30 June 2004
New Era PRC Fund	27.94%	52.30%
Benchmark: MSCI China Free Index	20.17%	41.80%

During the period, the MSCI China Free Index rose 20.17% in US dollar terms, significantly outperforming the MSCI World Index return of -0.40%. The Fund rose 27.94%, compared to 20.17% for the benchmark.

The Chinese market moved higher in the second half of 2004, driven by a rebound in commodity stocks and continuous liquidity spill-over from the Hong Kong market. Strong trade performance, resilient consumption and investment growth were behind the buoyant market. The fiscal balance was also reported in a surplus versus an earlier budget deficit. The "win surplus" proved to be good news for the market.

The lending rate rise in October, the first time in 10 years, only slowed the market temporarily as Chinese investors are under-leveraged. However, the fact that it came after its slow third quarter economic numbers, signaled the government's intention to rein investment growth and inflation through monetary measures as previous administrative measures did not seem to have worked. On the whole, investors view that while the interest rate hike will inevitably increase uncertainties, it is positive in the long run given its power to eliminate smaller players, encourage industry consolidation, and avoid potential investment bubbles.

Separately, the market also expected the government to accelerate currency reforms as macro data indicated moderate but still strong economic growth, underpinned by strong consumption and trade performance. However, the market chose to ignore the few events that highlighted investment risks, which included management reshuffling in the telecom sector and the arrest of Skyworth's chairman due to alleged fraud accounting at the time of the IPO and embezzlement of corporate funds.

The Chinese market saw some volatility during the first quarter in 2005. After much debate over whether the Chinese economy was heading for a hard or soft landing, investors' focus shifted towards earnings, as it became obvious that corporate earnings came under pressure as labour and energy costs increased. First quarter earnings saw a sharp slowdown after two years of strong growth.

Benchmark performance was well supported by the strong return of big-index stocks such as PetroChina and China Mobile. PetroChina rallied as oil prices jumped from US$40 to US$60 per barrel. China Mobile performed well as investors believed growth was coming back as tariffs stabilised.

The most talked-about news during the period was the numerous overseas acquisitions proposed by Chinese companies. CNOOC caught the headlines with its bid for Unocal, while Lenovo has successfully acquired IBM's PC business and TPV has taken over Philip's TV operations. Trade tension also escalated on disputes over textile exports to the US and the EU, which was ultimately settled with China introducing measures to control export growth.