MANAGER'S REPORT

PERFORMANCE

	1 Jul 2004 to 31 Dec 2004	1 Jul 2005 to 30 Dec 2005
New Era PRC Fund	18.92%	6.03%
Benchmark: MSCI China Free Index	14.17%	13.79%

China moved higher in the second half of 2005, with high investor risk appetite driving many markets across the region.

Early in the period, investors were surprised by a move to appreciate the renminbi (Rmb) by 2.1% and to replace its US dollar peg with a link to a basket of currencies. This led to renewed interest in Chinese consumption plays and property stocks in Hong Kong and China. Exporters underperformed, however, on cost concerns over the re-valued currency. Economic data continued to be strong and investors have become less sceptical on the sustainability of China's growth. Corporate earnings momentum has slowed with first half 2005 earnings only up by single-digits and margin squeeze experienced in downstream areas. Signs of abating oil prices and the suggestion that the US cycle of interest rate rises also helped markets in the region.

After a strong early performance, the market corrected somewhat in October, as investors focused on a possible human pandemic of avian flu. Chinese A share companies announced share reform plans to make state-owned shares tradeable by offering compensation (normally in the form of free shares) to investors. Since the government has stated that compensation will only be made to A share investors, it failed to excite either B or H share investors.

The positive sentiment towards Chinese shares was restored in November and December, the market encouraged by local economic news. Despite scepticism about the sustainability of China's economic growth rate, data showed that investment and export growth continued to grow at over 25%. Expansion in China's trade surplus, however, raised concerns of trade disputes and anticipation that the currency will continue to strengthen. Late in the year, strong sentiment in the US, particularly signs of rising consumer confidence, helped China's market. Locally, domestic consumption growth numbers were healthy, with retail sales up 12.4% year-on-year to November.

In summary, the small currency revaluation had little impact during the period, but capital market reforms were broadly welcomed. Record high equity issuance and underlying worries of confused corporate agendas — for example, the purchase of overseas assets for strategic purposes — somewhat detracted from an otherwise positive performance.

Valuations in China are by and large attractive, although careful selection is important. We see domestic consumption as a key driver for the economy because exports and investment may start to slow from current high levels. Demand remains uncertain because the impact of high oil prices is yet to be seen. We are therefore cautious about companies too reliant on a generally strong economy. Instead we prefer those companies able to generate growth through competitive advantages even in a slower economic environment. The long-term Chinese and broader Asian outsourcing picture remains intact, despite some short-term uncertainty due to the renminbi appreciation and the correlative increase in raw material prices.