

Challenger China Share Fund

Fund report and commentary – 31 December 2007

Performance						
	Quarter (%)	1 year (%)	3 years (%) p.a.	5 years (%) p.a.	10 years (%) p.a.	Inception (%) p.a. ¹
Challenger China Share Fund	-4.59	43.39	-	-	-	44.50
Growth return	-4.59	34.83	-	-	-	36.30
Distribution return	0.00	8.55	-	-	-	8.20
MSCI China Index – unhedged	-2.88	49.18	-	-	-	44.90
Challenger Wholesale China Share Fund	-4.34	44.88	-	-	-	60.73
Growth return	-4.34	36.31	-	-	-	54.31
Distribution return	0.00	8.57	-	-	-	6.42
MSCI China Index – unhedged	-2.88	49.18	-	-	-	62.70

¹Inception returns for the Challenger Wholesale China Share Fund are non-annualised.

Returns are calculated after fees have been deducted, assuming reinvestment of distributions. No allowance is made for tax. Past performance is not a reliable indicator of future performance.

Investment objective

The Fund aims to provide long-term capital growth (over a period of at least five years) and to outperform the MSCI China Index – unhedged (after ongoing fees) over rolling five-year periods.

Investment manager

Halbis Capital Management (Hong Kong) Limited

Investment strategy

Halbis Capital Management believes that the Chinese equity markets are inefficient, due to high market volatility, lower quality corporate data and investor research relative to major markets and high index concentration in top stocks, with a large number of existing and newly listed securities.

Halbis Capital Management is an active investor in Chinese equities which seeks to exploit these market inefficiencies by investing in mispriced stocks where the market has overreacted to temporary or short-term events or where Halbis Capital Management has a 'research edge' as a result of its detailed fundamental research and analysis.

Distribution frequency

Yearly

Suggested minimum investment timeframe

At least five years

Asset allocation		
	Current (%)	Range (%)
Chinese securities	98	90-100
Cash	2	0-10

Top five absolute positions as at 30 November 2007		
	Fund weight (%)	Index weight (%)
China Mobile	9.54	19.44
Petrochina Company	7.99	6.58
CNOOC	7.20	5.03
China Life Insurance Company (China)	6.99	6.92
Industrial & Commercial Bank Of China	5.17	4.13

Top five active positions as at 30 November 2007			
	Fund weight (%)	Index weight (%)	Active weight (%)
China Mobile	9.54	19.44	-9.90
China Coal Energy Company	4.34	0.00	4.34
CNOOC	7.20	5.03	2.18
Bank Of China	0.00	2.13	-2.13
China Travel International Investment Hong Kong	2.32	0.34	1.98

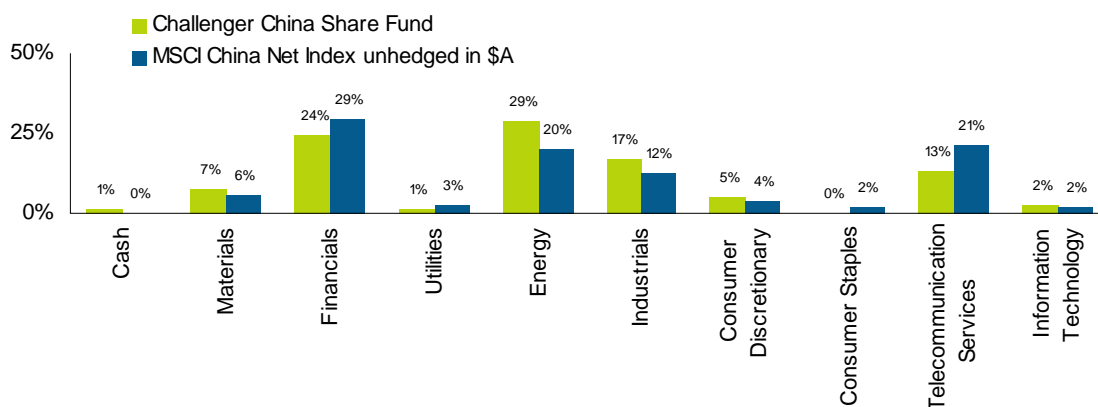
Fund facts		
	China Share Fund	Wholesale China Share Fund
Inception date	31/12/2004	03/07/2006
Fund size (\$M)	67.6	25.3
APIR code	HBC0027AU	HOW0033AU

Fees		
	China Share Fund	Wholesale China Share Fund
Entry fee	Up to 4%	Nil
2007/08 ICR	2.29%	1.25%
Management fee	2.30%p.a.	1.25%p.a.
Performance fee	N/A	20% of the Fund's after management fee return above the MSCI China Index - unhedged
Buy/sell spread	+0.36%/-0.36%	+0.36%/-0.36%

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Sector exposure as at 30 November 2007



Commentary

In US dollar terms, the China equity market continued to fall for the month of December. The losses for November and December meant that performance for the quarter was also negative as the market gave up its gains for the month of October. In AUD terms the market was also down for both the month of December and for Q4.

Concerns in the quarter over global credit markets, rising oil prices and the decision to postpone the implementation of individual share schemes allowing mainland Chinese to invest directly in Hong Kong was compounded in December by the government's tightening measures and rhetoric to cool the economy as inflation rose to an 11 year high of 6.9% on the back of rising food prices.

During the month, the fund was slightly ahead of benchmark, but over the quarter the fund was down, translating to mild underperformance for the year in AUD terms. Sector performance in December was mixed, with defensive sectors such as consumer staples, utilities and telco services outperforming, while the cyclical Industrials and Materials lagged the market. Despite rising oil prices, airlines outperformed on the back of further corporate activity, steel makers fell on news that there will be further hikes in export tariffs, banks also suffered as the statutory reserve ratio was increased again in December.

On the positive side, retail sales again beat expectations and fixed asset investment growth continued to be strong which reinforces our long term themes in the portfolio of consumer growth and infrastructure development.

The fund remained overweight in selected commodities and consumer sectors on the back of China's strong domestic economy while underweighting the banks. Our active positions in selective stocks such as; our overweight in China Coal and underweight to Bank of Communications was a positive for performance during the month.

Fund outlook

We believe market sentiment will be cautious over the coming month on concern of further tightening to curb inflation in China and global economic uncertainties. However, we expect individual investment scheme rollout and launch of new QDII funds in 2008 will benefit H Shares and Red Chips listed in Hong Kong. The fund will continue to focus on companies which can benefit from China's strong economic growth.

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