

# First State New Era PRC Fund

Annual Report

July 2017 - June 2018

## FIRST STATE NEW ERA PRC FUND

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This annual report shall not constitute an offer to sell or a solicitation of an offer to buy units in First State New Era PRC Fund. Subscriptions are to be made only on the basis of the information contained in the relevant Explanatory Memorandum, as supplemented by the latest annual and semi-annual reports.

**FIRST STATE NEW ERA PRC FUND  
REPORT OF THE MANAGER  
FOR THE YEAR ENDED 30 JUNE 2018**

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**PERFORMANCE**

	1 July 2017 to 30 June 2018	1 July 2016 to 30 June 2017
First State New Era PRC Fund Class II	31.46%	25.69%
First State New Era PRC Fund Class III	32.06%	26.33%
Benchmark: MSCI China Free Index	21.23%	32.34%

(Performance calculation is based on the official dealing NAV.)

**Market review**

The MSCI China index increased by 21.2% in US dollar terms over the 12 months to 30 June 2018. At a sector level, Consumer Staples and Healthcare were the best performers, while Telecom Services and Industrials lagged.

**Fund performance**

Key contributors to performance included CSPC Pharmaceutical, which rallied on better than expected earnings boosted by the inclusion of its flagship NBP product on China's National Reimbursement Drug List. Tencent rose to record highs as the firm announced strong net profits growth driven by a surge in mobile payments and cloud services.

On the negative side, China National Accord Medicine declined after it announced that Walgreens Boots Alliance was taking a 40% strategic stake in the company. Though the deal is pending review from the authorities, investors worried that such a large stake sale would be earnings dilutive in the near term. Ctrip.com weakened on concerns around greater competition in the online travel agency market.

**Major activity**

Significant new purchases over the period included Wuxi Little Swan, a washing machine manufacturer majority-owned by Midea that has continued to gain market share domestically. Industry growth has been steady based on replacement demand; and ASPs have trended higher due to improved functionality and upgraded products. We also purchased Luk Fook Holdings, a jewellery retailer with a long-term track record. Earnings had fallen by about half but we believed the outlook was stabilising – their same store sales decline had decelerated and falling Hong Kong rents had eased rental cost pressures. Longer-term, we believe the expansion into China and conversion from franchised to self-operated stores should result in reasonable growth.

We divested Softbank on concerns around its investment strategy and sold Delta Electronics as we believe there are better opportunities elsewhere.

**FIRST STATE NEW ERA PRC FUND  
REPORT OF THE MANAGER (CONTINUED)  
FOR THE YEAR ENDED 30 JUNE 2018**

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**Outlook**

One of the key issues weighing on China at the moment is the potential trade war with the United States. However, the outlook for the China A-share market depends not only on the outcome of trade negotiations between the two countries, but also on the de-leveraging process in China.

Trade issues would have a longer-term impact on China's emerging industries and put pressure on sustainable economic growth. To counter the negative impact, there would likely be further reforms and opening measures. Reforms would be beneficial for well-run industry leaders, on hopes of better management incentives for state-owned enterprises and further consolidation of domestic industries.

Meanwhile, China's de-leveraging efforts are likely to have more of a near-term negative impact to economic growth. Companies that rely heavily on bank financing would be most affected, although those with excessive share pledges by controlling shareholders (as a way to raise funds) would also be penalised.

The above suggests a selective investment approach is needed when picking stocks. Companies that are cognizant of the risks and their responsibilities to shareholder are likely to do better than others during volatile times.

**FIRST STATE NEW ERA PRC FUND  
PERFORMANCE TABLE (UNAUDITED)  
FOR THE YEAR ENDED 30 JUNE 2018**

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**NET ASSET VALUES**

<b>Financial year</b>	<b>Net asset value US\$</b>	<b>Net asset value per unit in issue US\$</b>
30.6.2018 - Class II	5,558,961	133.39
30.6.2018 - Class III	8,270,281	14.12
30.6.2017 - Class II	4,582,834	101.48
30.6.2017 - Class III	8,471,782	10.70
30.6.2016 - Class II	4,094,278	80.73
30.6.2016 - Class III	5,328,662	8.47

**PERFORMANCE RECORD**

<b>Financial year ended</b>	<b>Highest price per unit US\$</b>	<b>Lowest price per unit US\$</b>
30.6.2018 - Class II	145.14	99.92
30.6.2018 - Class III	15.37	10.53
30.6.2017 - Class II	102.70	80.20
30.6.2017 - Class III	10.82	8.42
30.6.2016 - Class II	102.19	72.84
30.6.2016 - Class III	10.71	7.64
30.6.2015 - Class II*	112.91	88.30
30.6.2015 - Class III	11.82	9.23
30.6.2014 - Class II	97.50	80.10
30.6.2014 - Class III	-	-
30.6.2013 - Class II	88.60	68.25
30.6.2013 - Class III	-	-
30.6.2012 - Class II	79.42	57.46
30.6.2012 - Class III	-	-
30.6.2011 - Class II	83.06	65.41
30.6.2011 - Class III	-	-
30.6.2010 - Class II	72.39	49.65
30.6.2010 - Class III	-	-
30.6.2009 - Class II	59.58	25.52
30.6.2009 - Class III	-	-

\* As per the updated Explanatory Memorandum dated 7 October 2014, the existing units of the Fund will be referred to as "Class II" units.

**FIRST STATE NEW ERA PRC FUND  
REPORT OF THE TRUSTEE  
FOR THE YEAR ENDED 30 JUNE 2018**

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We hereby confirm that, in our opinion, the Manager of the Fund has, in all material respects, managed the Fund in accordance with the provisions of the Trust Deed dated 28 June 2001, as amended, for the year ended 30 June 2018.

For and on behalf of

HSBC Institutional Trust Services (Asia) Limited  
as the Trustee of  
First State New Era PRC Fund

Hong Kong, 18 October 2018

**INDEPENDENT AUDITOR'S REPORT  
TO THE UNITHOLDERS OF FIRST STATE NEW ERA PRC FUND (THE "FUND")**

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**Report on the Audit of the Financial Statements**

**Opinion**

What we have audited

The financial statements of the Fund set out on pages 8 to 32, which comprise:

- the statement of net assets as at 30 June 2018;
- the statement of comprehensive income for the year then ended;
- the statement of changes in net assets attributable to unitholders for the year then ended;
- the cash flow statement for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Fund as at 30 June 2018, and of its financial transactions and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

**Basis for Opinion**

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Fund in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

**Other Information**

The Trustee and the Manager (the "Management") of the Fund are responsible for the other information. The other information comprises report of the manager, performance table (unaudited), report of the trustee, investment portfolio (unaudited), statement of movements in portfolio holdings (unaudited) and general information, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**INDEPENDENT AUDITOR'S REPORT  
TO THE UNITHOLDERS OF FIRST STATE NEW ERA PRC FUND (THE "FUND")  
(CONTINUED)**

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**Responsibilities of the Management for the Financial Statements**

The Management of the Fund is responsible for the preparation of financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA, and for such internal control as the Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Management of the Fund is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

In addition, the Management of the Fund is required to ensure that the financial statements have been properly prepared in accordance with the relevant disclosure provisions of the Trust Deed dated 28 June 2001, as amended (the "Trust Deed") and Appendix E of the Code on Unit Trusts and Mutual Funds issued by the Hong Kong Securities and Futures Commission (the "SFC Code").

**Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. In addition, we are required to assess whether the financial statements of the Fund have been properly prepared, in all material respects, in accordance with the relevant disclosure provisions of the Trust Deed and the SFC Code.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.

**INDEPENDENT AUDITOR'S REPORT  
TO THE UNITHOLDERS OF FIRST STATE NEW ERA PRC FUND (THE "FUND")  
(CONTINUED)**

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**Auditor's Responsibilities for the Audit of the Financial Statements (Continued)**

- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

**Report on Matters under the Relevant Disclosure Provisions of the Trust Deed and the SFC Code**

In our opinion, the financial statements have been properly prepared, in all material respects, in accordance with the relevant disclosure provisions of the Trust Deed and the SFC Code.

**PricewaterhouseCoopers**  
Certified Public Accountants

Hong Kong, 18 October 2018

**FIRST STATE NEW ERA PRC FUND**  
**STATEMENT OF NET ASSETS**  
**AS AT 30 JUNE 2018**

	Note	2018 US\$	2017 US\$
<b>Assets</b>			
Formation cost		8,130	12,116
Investments	4(b)	13,555,129	13,016,836
Interest receivable		7	-
Dividend receivable		40,720	44,292
Amounts receivable from brokers		19,845	50,545
Cash at banks		437,819	68,702
<b>Total assets</b>		14,061,650	13,192,491
<b>Liabilities</b>			
Derivative financial instruments	6	12	12
Amounts payable to brokers		90,582	-
Amounts payable on redemption		53,132	69,721
Accounts payable and accrued expenses		88,682	68,142
<b>Total liabilities (excluding net assets attributable to unitholders)</b>		232,408	137,875
<b>Net assets attributable to unitholders</b>		13,829,242	13,054,616
<b>Number of units in issue</b>			
- Class II (USD)	3	41,672.87	45,158.78
- Class III (USD)	3	585,300.89	791,686.42
<b>Net assets attributable to unitholders per unit</b>			
- Class II (USD)	3	133.39	101.48
- Class III (USD)	3	14.12	10.70

Signed for and on behalf of

HSBC Institutional Trust Services (Asia) Limited  
as the Trustee

First State Investments (Hong Kong) Limited  
as the Manager

The notes on pages 12 to 32 form part of these financial statements.

**FIRST STATE NEW ERA PRC FUND  
STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 30 JUNE 2018**

	Note	2018 US\$	2017 US\$
<b>Income</b>			
Interest on bank deposits		449	25
Dividend on investments		246,002	278,227
Net gains on investments and derivative financial instruments	5	3,942,842	2,620,759
Other income		2,914	1,502
Exchange losses		(4,100)	(3,617)
Total net income		<u>4,188,107</u>	<u>2,896,896</u>
<b>Expenses</b>			
Management fee	9(a)	165,395	135,777
Trustee's fee	9(b)	6,941	5,688
Administration fee	9(c)	13,883	12,236
Auditor's remuneration		33,298	31,846
Legal and professional fees		23,729	14,544
Safe custody and bank charges		2,738	1,222
Interest expenses		40	198
Preliminary expenses		3,986	3,997
Other operating expenses		27,712	29,397
Total operating expenses		<u>277,722</u>	<u>234,905</u>
<b>Profit before tax</b>		3,910,385	2,661,991
Withholding tax		(10,981)	(16,065)
<b>Increase in net assets attributable to unitholders from operations</b>		<u><u>3,899,404</u></u>	<u><u>2,645,926</u></u>

The notes on pages 12 to 32 form part of these financial statements.

**FIRST STATE NEW ERA PRC FUND  
STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS  
FOR THE YEAR ENDED 30 JUNE 2018**

	Note	2018 US\$	2017 US\$
<b>Net assets attributable to unitholders at 1 July</b>		13,054,616	9,422,940
Allotment of units	3	2,565,675	1,499,583
Redemption of units	3	(5,690,453)	(513,833)
Increase in net assets attributable to unitholders from operations		3,899,404	2,645,926
<b>Net assets attributable to unitholders at 30 June</b>		<u>13,829,242</u>	<u>13,054,616</u>

The notes on pages 12 to 32 form part of these financial statements.

**FIRST STATE NEW ERA PRC FUND  
CASH FLOW STATEMENT  
FOR THE YEAR ENDED 30 JUNE 2018**

	<b>2018</b>	<b>2017</b>
	<b>US\$</b>	<b>US\$</b>
<b>Cash flows from operating activities</b>		
Purchase of investments and derivative financial instruments	(3,649,219)	(4,572,642)
Proceeds from sale of investments and derivative financial instruments	7,175,050	3,496,294
Interest received	442	25
Dividend received	238,593	266,122
Other income received	2,914	1,502
Management fee paid	(163,866)	(132,432)
Trustee's fee paid	(6,888)	(5,533)
Administration fee paid	(13,777)	(12,162)
Auditor's remuneration paid	(32,300)	(31,310)
Interest paid	(40)	(198)
Other operating expenses paid	(36,325)	(47,168)
	<hr/>	<hr/>
<b>Net cash generated from/(used in) operating activities</b>	<b>3,514,584</b>	<b>(1,037,502)</b>
	<hr/>	<hr/>
<b>Cash flows from financing activities</b>		
Allotment of units	2,565,675	1,499,583
Redemption of units	(5,707,042)	(497,244)
	<hr/>	<hr/>
<b>Net cash (used in)/generated from financing activities</b>	<b>(3,141,367)</b>	<b>1,002,339</b>
	<hr/>	<hr/>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>373,217</b>	<b>(35,163)</b>
Effect of foreign exchange rate changes	(4,100)	(3,617)
Cash and cash equivalents at the beginning of the year	68,702	107,482
	<hr/>	<hr/>
<b>Cash and cash equivalents at the end of the year</b>	<b>437,819</b>	<b>68,702</b>
	<hr/> <hr/>	<hr/> <hr/>
<b>Analysis of balance of cash and cash equivalents</b>		
Cash at banks	437,819	68,702
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The notes on pages 12 to 32 form part of these financial statements.

**FIRST STATE NEW ERA PRC FUND  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2018**

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**1. The Fund**

First State New Era PRC Fund (the “Fund”) is a unit trust established in Hong Kong under a Trust Deed dated 28 June 2001, as amended.

The Fund is authorised by the Securities and Futures Commission of Hong Kong under Section 104 of the Hong Kong Securities and Futures Ordinance and is required to comply with the Code on Unit Trusts and Mutual Funds issued by the Securities and Futures Commission of Hong Kong. Prior to 7 October 2014, the investment objective of the Fund was to provide investors with capital growth over the medium to long term primarily by investing in Hong Kong listed Red Chips and H-shares, and securities listed on the stock exchanges of the People’s Republic of China (the “PRC”), which are available to foreign investors. With effect from 7 October 2014, according to the updated Explanatory Memorandum, the investment objective of the Fund has been changed to achieving long-term capital appreciation. The Fund aims to invest fully in equity and equity related securities issued by companies, with no restriction on company size, with either assets in, or revenues derived from, the PRC that are listed, traded or dealt in on stock exchanges and markets in the PRC, Hong Kong, Taiwan, the United States or in a member state of the Organisation for Economic Co-operation and Development (the “OECD”). Further with effect from 12 April 2017, the Fund may directly invest up to 30% of its net asset value in certain eligible China A-shares via the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect (the “Stock Connects”). The Fund may also invest directly in China B-shares through the PRC stock exchanges.

HSBC Institutional Trust Services (Asia) Limited (the “Trustee”) has been appointed as the trustee of the Fund. The investment objectives of the Fund are managed by First State Investments (Hong Kong) Limited (the “Manager”).

**2. Summary of significant accounting policies**

The principal accounting policies applied in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities (including derivative financial instruments) held at fair value through profit or loss.

The preparation of financial statements in conformity with HKFRSs requires the Trustee to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

**FIRST STATE NEW ERA PRC FUND  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2018**

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**2. Summary of significant accounting policies (continued)**

(a) Basis of preparation (continued)

Standards and amendments to existing standards effective from 1 July 2017

Amendments to HKAS 7, 'Statement of cash flows', became effective for annual periods beginning on or after 1 July 2017. These amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Adoption of these amendments did not have a material impact on the Fund's financial statements.

There are no other standards, interpretations or amendments to existing standards that are effective for the first time for the financial year beginning 1 July 2017 that would be expected to have a material impact on the Fund.

New standards, amendments and interpretations that are relevant to the Fund but are not yet effective and have not been early adopted by the Fund

HKFRS 9, 'Financial instruments', addresses the classification, measurement and derecognition of financial assets and liabilities. It replaces the guidance in HKAS 39 that relates to the classification and measurement of financial instruments. HKFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income not recycling to profit or loss. There is now a new expected credit losses model that replaces the incurred loss impairment model used in HKAS 39. For financial liabilities, there are no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income for liabilities designated at fair value through profit or loss. HKFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually uses for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under HKAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Fund expects that the application of the standard will have no material impact on how the results and financial position of the Fund is prepared.

There are no other standards, interpretations or amendments to existing standards that are not yet effective that would be expected to have a significant impact on the Fund.

**FIRST STATE NEW ERA PRC FUND  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2018**

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**2. Summary of significant accounting policies (continued)**

(b) Investments

All investments have been classified as “financial assets at fair value through profit or loss”.

Purchases and sales of investments are accounted for on the trade date basis. Investments are initially recognised at fair value, excluding transaction costs which are expensed as incurred, and are subsequently re-measured at fair value. Realised and unrealised gains and losses on investments are included in the statement of comprehensive income in the period in which they arise. Investments are derecognised when the rights to receive cash flows from the investments have expired or the Fund has transferred substantially all risks and rewards of ownership.

The Fund utilises the last traded market prices as its fair valuation inputs for both financial assets and liabilities where the last traded price falls within the bid-ask spread. In circumstances where the last traded price is not within the bid-ask spread, management will determine the point within the bid-ask spread that is most representative of fair value.

(c) Derivative financial instruments

Derivative financial instruments are recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and option pricing models, as appropriate. All derivative financial instruments are carried as assets when fair value is positive and as liabilities when fair value is negative.

The best evidence of the fair value of a derivative financial instrument at initial recognition is the transaction price (i.e. the fair value of the consideration given or received). Subsequent changes in the fair value of any derivative financial instrument are recognised immediately in the statement of comprehensive income.

(d) Income

Interest income is recognised on a time-proportionate basis using the effective interest method. Dividend income is recognised when the right to receive payments is established. Other income is accounted for on an accruals basis.

(e) Translation of foreign currencies

(i) Functional and presentation currencies

Items included in the Fund’s financial statements are measured using the currency of the primary economic environment in which it operates (the “functional currency”). The performance of the Fund is measured and reported to the unitholders in United States dollar. The Manager considers the United States dollar as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions. The financial statements are presented in United States dollar, which is the Fund’s functional and presentation currency.

**FIRST STATE NEW ERA PRC FUND  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2018**

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**2. Summary of significant accounting policies (continued)**

(e) Translation of foreign currencies (continued)

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign currency assets and liabilities are translated into the functional currency using the exchange rates prevailing at the reporting date.

Foreign exchange gains and losses arising from translation are included in the statement of comprehensive income.

Foreign exchange gains and losses relating to cash and cash equivalents are presented in the statement of comprehensive income within “exchange gains/(losses)”.

Foreign exchange gains and losses relating to the financial assets and liabilities carried at fair value through profit or loss are presented in the statement of comprehensive income within “net gains/(losses) on investments and derivative financial instruments”.

(f) Expenses

Expenses are accounted for on an accruals basis.

(g) Subscription and redemption of units

The Fund issues units, which are redeemable at the holder’s option and are classified as financial liability. The price at which units are subscribed or redeemed is calculated by reference to the net asset value per unit at the close of business on the relevant dealing day.

(h) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of net assets when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(i) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash at banks with maturity of three months or less from the date of placing the deposits, net of bank overdrafts, if any.

(j) Amounts receivable from and payable to brokers

Amounts receivable from and payable to brokers represent receivables from investments sold and payables for investments purchased respectively that have been contracted for but not yet settled or delivered by the reporting date.

(k) Preliminary expenses

Expenses incurred in the formation of the Fund's Class II units are recognized as expenses of the Fund in the period in which they arise.

**FIRST STATE NEW ERA PRC FUND  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2018**

**2. Summary of significant accounting policies (continued)**

(l) Taxation

The Fund currently incurs withholding tax imposed by certain countries on investment income and capital gains. Such income is recorded gross of withholding tax in the statement of comprehensive income.

**3. Number of units in issue and net assets attributable to unitholders**

The Fund has no restrictions on the subscription of units. However, to protect the interests of unitholders, the Manager is entitled, with the approval of the Trustee, to limit the number of units redeemed on any dealing day (whether by sale to the Manager or by cancellation by the Trustee) to 10% of the total number of units in issue. In this event, the limitation will apply pro rata so that all unitholders wishing to redeem units on that dealing day will redeem the same proportion of such units, and units not redeemed (but which would otherwise have been redeemed) will be carried forward for redemption, subject to the same limitation, on the next dealing day. If requests for redemption are so carried forward, the Manager will inform the unitholders concerned. Subscription and redemption of units during the year are shown in the statement of changes in net assets attributable to unitholders. In order to achieve the investment objectives, the Fund endeavors to invest its capital in accordance with the investment policies as outlined in note 4, whilst maintaining sufficient liquidity to meet redemption requests. Such liquidity is augmented by the holding of liquid investments.

At 30 June 2018, the Fund had US\$13,829,242 (2017: US\$13,054,616) of net assets attributable to unitholders which represent a financial liability in the statement of net assets, carried at the redemption amount that would be payable at the reporting date if the unitholders exercised the right to redeem the units in the Fund.

	<b>2018</b> <b>Units</b>	<b>2017</b> <b>Units</b>
Number of Class II units in issue	41,672.87	45,158.78
Number of Class III units in issue	585,300.89	791,686.42
	<b>2018</b> <b>US\$</b>	<b>2017</b> <b>US\$</b>
Net assets attributable to unitholders per Class II unit	133.39	101.48
Net assets attributable to unitholders per Class III unit	14.12	10.70

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**3. Number of units in issue and net assets attributable to unitholders (continued)**

	<b>2018</b>	<b>2018</b>
	<b>Class II</b>	<b>Class III</b>
	<b>Units</b>	<b>Units</b>
Balance at the beginning of the year	45,158.78	791,686.42
Allotment of units	-	218,541.31
Redemption of units	(3,485.91)	(424,926.84)
	<u>41,672.87</u>	<u>585,300.89</u>
Balance at the end of the year	<u><u>41,672.87</u></u>	<u><u>585,300.89</u></u>
	<b>2017</b>	<b>2017</b>
	<b>Class II</b>	<b>Class III</b>
	<b>Units</b>	<b>Units</b>
Balance at the beginning of the year	50,715.53	628,672.88
Allotment of units	-	163,013.54
Redemption of units	(5,556.75)	-
	<u>45,158.78</u>	<u>791,686.42</u>
Balance at the end of the year	<u><u>45,158.78</u></u>	<u><u>791,686.42</u></u>

According to the updated Explanatory Memorandum, four classes of units had been set up (Class I, Class I (Hong Kong dollars), Class II and Class III). Existing units of the Fund had been transferred into Class II on the date of the updated Explanatory Memorandum. Class II units are not available for subscription by retail investors in Hong Kong.

The Fund's objectives and policies for managing its obligations to redeem these instruments are included in note 4(h) on capital risk management and note 4(e) on liquidity risk.

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**4. Financial risk management**

Investments and derivative financial instruments are classified as “financial assets and liabilities at fair value through profit or loss”. The remaining financial assets and liabilities as shown on the statement of net assets are classified as “loans and receivables” and “other financial liabilities” respectively.

(a) Strategy in using financial instruments

The investment objective of the Fund is to achieve long-term capital appreciation. The Fund aims to invest fully in equity and equity related securities issued by companies, with no restriction on company size, with either assets in, or revenues derived from, the PRC that are listed, traded or dealt in on stock exchanges and markets in the PRC, Hong Kong, Taiwan, the United States or in a member state of the OECD. Further with effect from 12 April 2017, the Fund may directly invest up to 30% of its net asset value in certain eligible China A-shares via the Stock Connects. The Fund may also invest directly in China B-shares through the PRC stock exchanges.

The Fund is expected to provide a return in excess of the relevant benchmark index, the MSCI China Free Index (Total return) in United States dollars.

The Fund is exposed to market price risk, interest rate risk, credit risk, liquidity risk and currency risk.

The risks and the respective risk management policies employed by the Fund to manage these risks are discussed below:

(b) Market price risk

Market price risk is the risk that the value of a financial instrument will fluctuate due to changes in market prices, whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments in the market.

It is the policy of the Manager to maintain a diversified portfolio of investments so as to minimise risk.

At the reporting date, the overall exposures are as follows:

	<b>2018</b>		<b>2017</b>	
	<b>Fair value</b>	<b>% of net</b>	<b>Fair value</b>	<b>% of net</b>
	<b>US\$</b>	<b>assets</b>	<b>US\$</b>	<b>assets</b>
Held for trading:				
- Equities	13,555,129	98.02	13,016,836	99.71
	13,555,129	98.02	13,016,836	99.71

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**4. Financial risk management (continued)**

(b) Market price risk (continued)

The table below shows the exposure the Fund has to various markets:

Markets exposed to	<b>2018</b> <b>US\$</b> <b>equivalents</b>	<b>2017</b> <b>US\$</b> <b>equivalents</b>
China	9,385,950	9,198,620
Hong Kong	4,032,512	3,012,843
Japan	-	292,417
Taiwan	136,667	512,956
	<u>13,555,129</u>	<u>13,016,836</u>

The exposure to country is based on the place of domiciles of the security.

The exposure to sectors at the reporting date are as follows:

Sectors exposed to	<b>2018</b> <b>% of net assets</b>	<b>2017</b> <b>% of net assets</b>
Consumer discretionary	23.28	27.28
Consumer staples	8.08	8.45
Energy	-	0.69
Financials	7.41	8.18
Health care	14.82	14.84
Industrials	9.56	5.09
Information technology	19.47	20.94
Materials	1.99	1.58
Real estate	6.06	2.00
Telecommunication services	-	2.24
Utilities	7.35	8.42
	<u>98.02</u>	<u>99.71</u>

There were no individual investments with fair value exceeding 10% of the Fund's net asset value at 30 June 2018 and 2017.

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**4. Financial risk management (continued)**

(b) Market price risk (continued)

The table below summarizes the impact on the net assets at the reporting date of a reasonably possible change in the benchmark market index as applied to the respective beta reported by Lipper.

The reasonably possible change in the benchmark market index has been determined by using the last five years' annualized benchmark returns.

The performance of the Fund does not necessarily follow the benchmark and the holdings in the Fund might be different to the benchmark. The sensitivity analysis below is a relative estimate of risk. Please note that past performance should not be used as a guide to future performance as future market conditions could vary significantly from those experienced in the past.

	<b>2018</b>		<b>2017</b>	
	<b>Change in market index % +/-</b>	<b>Impact US\$ +/-</b>	<b>Change in market index % +/-</b>	<b>Impact US\$ +/-</b>
MSCI China Free Index (Total return)	12.27%	1,338,201	9.20%	956,004

(c) Interest rate risk

Interest rate risk is the risk that the value or cash flows of a financial instrument will fluctuate due to changes in market interest rates.

The majority of the Fund's financial assets and liabilities are non-interest bearing, as a result, the Fund is not subject to significant amounts of risk due to fluctuations in the prevailing levels of market interest rates. Any excess cash and cash equivalents are invested at short-term market interest rates.

The Fund had bank balances of US\$437,819 (2017: US\$68,702) at 30 June 2018, and is therefore exposed to minimal interest rate risk on these bank balances.

(d) Credit and custody risk

Credit risk is the risk that an issuer or counterparty will be unable or unwilling to pay amounts in full when due. Custody risk is the risk of loss of securities held in custody occasioned by the insolvency, negligence or fraudulent action of the custodian or sub-custodian.

The Fund's financial assets which are potentially subject to concentrations of credit risk consist principally of bank deposits and assets held with the custodian. The table below summarizes the assets placed with the bank and custodian at the reporting date.

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**4. Financial risk management (continued)**

(d) Credit and custody risk (continued)

**At 30 June 2018**

	US\$	Credit rating	Source of credit rating
<u>Custodian – custody risk</u>			
HSBC Institutional Trust Services (Asia) Limited	13,555,129	AA-*	Fitch
<u>Bank – credit risk</u>			
The Hongkong and Shanghai Banking Corporation Limited	437,819	AA-*	Fitch

**At 30 June 2017**

	US\$	Credit rating	Source of credit rating
<u>Custodian – custody risk</u>			
HSBC Institutional Trust Services (Asia) Limited	13,016,836	AA-*	Fitch
<u>Bank – credit risk</u>			
The Hongkong and Shanghai Banking Corporation Limited	68,702	AA-*	Fitch

All transactions in listed/quoted investments are settled/paid for upon delivery using approved and reputable brokers. The risk of default is considered minimal since delivery of securities sold is only made when the broker has received payment. Payment is made on a purchase when the securities have been received by the broker. The trade will fail if either party fails to meet its obligation.

The Fund limits its exposure to credit risk by transacting the majority of its securities and contractual commitment activities with broker-dealers, banks and regulated exchanges with high credit ratings and that the Fund considers to be well established.

The Fund has arranged uncommitted overdraft facility with The Hongkong and Shanghai Banking Corporation Limited (“HSBC”). To secure the facility, the Fund has granted HSBC a lien on the collateral and the securities and/or cash held in other accounts from time to time whether for safe custody or otherwise in respect of the Fund’s actual or contingent liabilities under the facility. The Fund is therefore also exposed to credit risk to HSBC. Please refer to note 7 for the uncommitted bank overdraft facility.

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets as shown on the statement of net assets.

None of the assets is impaired nor past due but not impaired.

\* The credit ratings of HSBC Institutional Trust Services (Asia) Limited and The Hongkong and Shanghai Banking Corporation Limited are obtained from HSBC Holdings plc, which is their ultimate holding company.

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**4. Financial risk management (continued)**

(e) Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in settling a liability, including a redemption request.

The Fund is exposed to daily cash redemptions of units in the Fund. The Fund invests the majority of its assets in investments that are traded in an active market and can be readily disposed of. Please refer to note 3 for restrictions on unit redemptions and note 7 for the uncommitted bank overdraft facility.

The table below analyses the Fund's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying amounts, as the impact of discounting is not significant.

	<b>Less than 1 month US\$</b>	<b>1-3 months US\$</b>	<b>More than 3 months US\$</b>
<b>At 30 June 2018</b>			
Derivative financial instruments	12	-	-
Amounts payable to brokers	90,582	-	-
Amounts payable on redemption	-	-	53,132
Accounts payable and accrued expenses	26,161	38,296	24,225
Net assets attributable to unitholders	13,829,242	-	-
	<u>13,945,997</u>	<u>38,296</u>	<u>77,357</u>
	<u><u>13,945,997</u></u>	<u><u>38,296</u></u>	<u><u>77,357</u></u>
	<b>Less than 1 month US\$</b>	<b>1-3 months US\$</b>	<b>More than 3 months US\$</b>
<b>At 30 June 2017</b>			
Derivative financial instruments	12	-	-
Amounts payable on redemption	16,589	-	53,132
Accounts payable and accrued expenses	23,199	37,639	7,304
Net assets attributable to unitholders	13,054,616	-	-
	<u>13,094,416</u>	<u>37,639</u>	<u>60,436</u>
	<u><u>13,094,416</u></u>	<u><u>37,639</u></u>	<u><u>60,436</u></u>

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**4. Financial risk management (continued)**

(e) Liquidity risk (continued)

Units are redeemable on demand at the holder's option. At 30 June 2018, there were 2 (2017: 2) unitholders holding over 10% of the Fund's net assets individually.

The Fund manages its liquidity risk by investing predominantly in securities that it expects to be able to liquidate within 1 month or less. The table below illustrates the expected liquidity of assets held:

<b>At 30 June 2018</b>	<b>Less than 1 month US\$</b>	<b>1-3 months US\$</b>	<b>More than 3 months US\$</b>
Investments	13,555,129	-	-
Interest receivable	7	-	-
Dividend receivable	36,062	4,658	-
Amounts receivable from brokers	19,845	-	-
Cash at banks	437,819	-	-
	<u>14,048,862</u>	<u>4,658</u>	<u>-</u>
	<u><u>14,048,862</u></u>	<u><u>4,658</u></u>	<u><u>-</u></u>
<b>At 30 June 2017</b>	<b>Less than 1 month US\$</b>	<b>1-3 months US\$</b>	<b>More than 3 months US\$</b>
Investments	13,016,836	-	-
Dividend receivable	34,807	9,485	-
Amounts receivable from brokers	50,545	-	-
Cash at banks	68,702	-	-
	<u>13,170,890</u>	<u>9,485</u>	<u>-</u>
	<u><u>13,170,890</u></u>	<u><u>9,485</u></u>	<u><u>-</u></u>

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**4. Financial risk management (continued)**

(f) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Fund has assets and liabilities denominated in currencies other than United States dollar, the Fund's functional and presentation currency. The Fund is therefore exposed to currency risk, as the value of monetary assets and liabilities denominated in other currencies will fluctuate due to changes in exchange rates. The Manager will enter into forward foreign exchange contracts from time to time to hedge against the fluctuation in exchange rates. Details of forward foreign exchange contracts outstanding at the reporting date are disclosed in note 6.

The table below summarizes the Fund's net exposure to different major foreign currencies:

	2018		2017	
	Monetary US\$	Non- monetary US\$	Monetary US\$	Non- monetary US\$
Chinese renminbi	-	2,174,941	-	2,385,692
Hong Kong dollar	4,802	10,578,390	65,573	9,278,116
Japanese yen	-	-	-	292,417
Taiwan dollar	-	136,667	3,445	512,956

The table below summarizes the impact on net assets as a result of increases/decreases of key exchange rates on the exposures tabled above, to which the Fund is exposed. The analysis is based on the assumption that the exchange rates had increased/decreased by the stated percentage with all other variables held constant.

	2018			2017		
	Change +/-	Impact Monetary US\$ equivalent +/-	Impact Non- monetary US\$ equivalent +/-	Change +/-	Impact Monetary US\$ equivalent +/-	Impact Non- monetary US\$ equivalent +/-
Chinese renminbi	5.0%	-	108,747	5.0%	-	119,285
Japanese yen	5.0%	-	-	5.0%	-	14,621
Taiwan dollar	5.0%	-	6,833	5.0%	172	25,648

As Hong Kong dollar is currently pegged to United States dollar within a narrow range, the impact on net assets is considered minimal, hence no sensitivity analysis of Hong Kong dollar is presented.

The Manager has used its view of what would be a "reasonably possible shift" in the exchange rate to estimate the change for use in the currency risk sensitivity analysis above.

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**4. Financial risk management (continued)**

(f) Currency risk (continued)

Disclosures above are shown in absolute terms, changes and impacts could be positive or negative. Changes in exchange rate % are revised annually depending on the Manager's current view of exchange rate volatility and other relevant factors.

(g) Fair value estimation

The fair value of financial assets and liabilities traded in active markets (such as publicly traded derivatives and trading securities) is based on quoted market prices at the close of trading on the reporting date. The Fund utilises the last traded market prices as its fair valuation inputs for both financial assets and liabilities.

An active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Fund for similar financial instruments.

HKFRS 13 requires the Fund to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability.

The determination of what constitutes "observable" requires significant judgment by the Fund. The Fund considers observable data to be such market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

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**4. Financial risk management (continued)**

(g) Fair value estimation (continued)

The table below analyses within the fair value hierarchy the Fund's investments and derivative financial instruments (by class) measured at fair value:

**At 30 June 2018**

	Level 1 US\$	Level 2 US\$	Level 3 US\$	Total US\$
<b>Assets</b>				
Held for trading				
- Equities	13,555,129	-	-	13,555,129
	<u>13,555,129</u>	<u>-</u>	<u>-</u>	<u>13,555,129</u>
	<u><u>13,555,129</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>13,555,129</u></u>
<b>Liabilities</b>				
Held for trading				
- Derivatives	-	12	-	12
	<u>-</u>	<u>12</u>	<u>-</u>	<u>12</u>
	<u><u>-</u></u>	<u><u>12</u></u>	<u><u>-</u></u>	<u><u>12</u></u>

**At 30 June 2017**

	Level 1 US\$	Level 2 US\$	Level 3 US\$	Total US\$
<b>Assets</b>				
Held for trading				
- Equities	13,016,836	-	-	13,016,836
	<u>13,016,836</u>	<u>-</u>	<u>-</u>	<u>13,016,836</u>
	<u><u>13,016,836</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>13,016,836</u></u>
<b>Liabilities</b>				
Held for trading				
- Derivatives	-	12	-	12
	<u>-</u>	<u>12</u>	<u>-</u>	<u>12</u>
	<u><u>-</u></u>	<u><u>12</u></u>	<u><u>-</u></u>	<u><u>12</u></u>

Financial instruments whose values are based on quoted market prices in active markets are classified within level 1. The Fund does not adjust the quoted prices for these instruments.

Financial instruments that trade in markets that are not considered to be active and are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within level 2. As level 2 instruments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information.

Financial instruments classified within level 3 have significant unobservable inputs, as they trade infrequently.

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**4. Financial risk management (continued)**

(g) Fair value estimation (continued)

There were no transfers between levels for the year ended 30 June 2018 and 2017.

The assets and liabilities as stated in the statement of net assets, excluding investments and derivative financial instruments, are carried at amortised cost; their carrying amounts are a reasonable approximation of fair value.

(h) Capital risk management

The capital of the Fund is represented by the net assets attributable to unitholders. The amount of net assets attributable to unitholders can change significantly as the Fund is subject to subscriptions and redemptions every day at the discretion of unitholders. The Fund's objective when managing capital is to safeguard the Fund's ability to continue as a going concern in order to provide returns for unitholders and benefits for other stakeholders and to maintain a strong capital base to support the investment activities of the Fund.

In order to maintain or adjust the capital structure, the Fund's policy is to perform the following:

- monitor the level of subscriptions and redemptions relative to the liquid assets; and
- redeem and issue units in accordance with the Trust Deed of the Fund.

The Manager monitors capital on the basis of the value of net assets attributable to unitholders.

**5. Net gains on investments and derivative financial instruments**

	<b>2018</b>	<b>2017</b>
	<b>US\$</b>	<b>US\$</b>
Change in unrealised gains on investments	2,010,061	2,502,080
Change in unrealised gains on derivative financial instruments	-	7
Realised gains on investments	1,932,781	118,672
	<u>3,942,842</u>	<u>2,620,759</u>

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**6. Derivative financial instruments**

Derivative financial instruments represent outstanding forward foreign exchange contracts.

	2018		2017	
	US\$	% of net assets	US\$	% of net assets
<b><u>Derivative financial instruments</u></b>				
- Forward foreign exchange contracts	(12)	(0.00)	(12)	(0.00)
<b>Total derivative financial instruments</b>				
<b>- liabilities</b>	<u>(12)</u>	<u>(0.00)</u>	<u>(12)</u>	<u>(0.00)</u>

The details of outstanding forward foreign exchange contracts at the reporting date are as follows:

**At 30 June 2018**

Contract to deliver	In exchange for	Settlement date	Fair value US\$
USD19,658	HKD154,243	3 July 2018	(4)
USD7,987	HKD62,671	3 July 2018	(1)
USD19,757	HKD155,009	3 July 2018	(5)
USD8,349	HKD65,520	3 July 2018	-
HKD155,733	USD19,842	5 July 2018	(2)
			<u>(12)</u>

**At 30 June 2017**

Contract to deliver	In exchange for	Settlement date	Fair value US\$
HKD152,398	USD19,518	3 July 2017	(9)
HKD35,758	USD4,579	5 July 2017	(3)
			<u>(12)</u>

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**7. Uncommitted bank overdraft facility**

The Fund has arranged uncommitted overdraft facility with HSBC since 29 May 2013. The overdraft facility limit is the lesser of US\$1,000,000 and 10% of the net asset value of the Fund. The overdraft balance shall bear interest at 0.5% above HSBC's best lending rate for United States dollars and 2.6% below HSBC's best lending rate for Hong Kong dollars. The terms under the facility are subject to renewal from time to time and at least on an annual basis.

To secure the facility, the Fund has granted HSBC a lien on the collateral and the securities and/or cash held in other accounts from time to time whether for safe custody or otherwise in respect of the Fund's actual or contingent liabilities under the facility. At 30 June 2018 and 2017, there was no outstanding payable under the overdraft facility.

For the year ended 30 June 2018, interest expenses of US\$40 (2017: US\$198) and bank charges of US\$2,231 (2017: US\$700) were incurred by the Fund.

**8. Taxation**

- (a) No provision for Hong Kong profits tax has been made as the Fund is authorised as a collective investment scheme under Section 104 of the Hong Kong Securities and Futures Ordinance and is therefore exempt from profits tax under Section 26A(1A) of the Hong Kong Inland Revenue Ordinance.
- (b) The Fund invests in shares of companies in the PRC listed on the Hong Kong Stock Exchange ("H-shares"). Under the PRC Corporate Income Tax Law, the Fund may be liable to pay PRC tax on the capital gains realised in the trading of H-shares. However, no provision was made for taxation from such gains in the financial statements as the Trustee and the Manager believe that the Fund can sustain a position for not filing a tax return based on the existing tax regulations and that the enforcement of China tax on capital gains is not probable.
- (c) The Fund invests in B-shares of companies listed in the PRC. Under current PRC tax laws, gains derived from the transfer of shares of Chinese companies by non-residents should be subject to a withholding tax of 10%, unless exempt under relevant tax treaties. The State Administration of Taxation (the "SAT") has remained silent on the application of withholding tax for capital gains and until further clarification is issued by the SAT, the Manager considers that there is significant uncertainty in respect of whether the Fund has any liability and the extent of such liability. In making the assessment, the Manager has considered (i) the current position of the SAT, (ii) absence of a withholding mechanism of the relevant tax, and (iii) current market practice. Based on assumptions that the withholding tax, if levied, is at 10% of the gross gains, the maximum liability the Fund may be exposed to is US\$84,545 (2017: US\$70,604), calculated based on the realised gains and unrealised gains from all investments in B-shares up to 30 June 2018. The Manager has assessed the risk for the Fund to be liable for such tax and considers such risk to be low at 30 June 2018, and therefore no provision was made.
- (d) The Fund invests in A-shares of companies listed in the PRC. Under current PRC tax laws, corporate income tax and business tax will be temporarily exempt on gains derived by Hong Kong and overseas investors (including the Fund) on the trading of China A-shares through the Stock Connects with effect from 17 November 2014. However, Hong Kong and overseas investors are required to pay tax on dividends and/or bonus shares at the rate of 10% which will be withheld and paid to the relevant authority by the listed companies.
- (e) Withholding tax was charged on certain dividend income received during the year.

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**9. Transactions with connected persons/related parties**

The following is a summary of the transactions entered into during the year between the Fund and its related parties including the Trustee, the Manager and its connected persons. Connected persons of the Manager are those defined in the Code on Unit Trusts and Mutual Funds issued by the Securities and Futures Commission of Hong Kong. All such transactions were entered into in the ordinary course of business and on normal commercial terms. To the best of the Manager's knowledge, the Fund does not have any other transactions with connected persons except those disclosed below.

(a) Management fee

The Manager is entitled to receive in arrears a monthly management fee from the Fund, accrued on and calculated at each dealing day at the rate of 1.5% per annum of the net asset value of the Class II (USD) units and 1% of the net asset value of the Class III (USD) units. The Manager may increase the rate of management fee payable in respect of each class of the Fund up to 2.25% per annum by giving not less than three months' written notice of such increase to the Trustee and the unitholders. For the year ended 30 June 2018, a management fee of US\$165,395 (2017: US\$135,777) was incurred by the Fund, of which US\$14,170 (2017: US\$12,641) remained payable at 30 June 2018.

(b) Trustee's fee

The Trustee is entitled to receive in arrears a monthly trustee fee from the Fund, accrued on and calculated at each dealing day at the rate of 0.05% per annum of the net asset value of the Fund. The Trustee may increase the rate of the trustee fee up to 1% per annum by giving not less than three months' written notice of such increase to the Manager and the unitholders. For the year ended 30 June 2018, a trustee fee of US\$6,941 (2017: US\$5,688) was incurred by the Fund, of which US\$590 (2017: US\$537) remained payable at 30 June 2018.

(c) Administration fee

The Trustee is also entitled to receive in arrears a monthly administration fee from the Fund, accrued on and calculated at each dealing day at the rate of 0.1% per annum of the net asset value of the Fund, subject to a minimum fee of US\$1,000 per month. For the year ended 30 June 2018, an administration fee of US\$13,883 (2017: US\$12,236) was incurred by the Fund, of which US\$1,180 (2017: US\$1,074) remained payable at 30 June 2018.

(d) Subscription charge

The Manager is entitled to a charge of 5% of the issue price per unit relating to subscriptions in the Fund. For the year ended 30 June 2018, units have been issued but no subscription charge has been levied by the Manager (2017: Nil).

(e) Cross trades with another fund managed by the Manager

During the year ended 30 June 2018, the Fund had no transactions with another fund which is also managed by the Manager.

During the year ended 30 June 2017, the Fund has transacted with another fund which is also managed by the Manager. The Fund sold an investment amounting to US\$6,018 to that another fund. The percentage of such transaction in value to total transactions during the year is 0.07%. The transaction was carried out at fair value of the investment on the date of the transaction. The decision was in the best interest of the Fund and fell within the investment objectives and policies of the Fund.

**FIRST STATE NEW ERA PRC FUND**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2018**

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**9. Transactions with connected persons/related parties (continued)**

(f) Other transactions and balances with the Trustee and its related parties

In addition to the trustee's fee of US\$6,941 (2017: US\$5,688) as disclosed in note 9(b) and the administration fee of US\$13,883 (2017: US\$12,236) as disclosed in note 9(c), the Fund had the following transactions with the Trustee and its related parties. All such transactions were entered into in the ordinary course of business and were on normal commercial terms.

	<b>2018</b>	<b>2017</b>
	<b>US\$</b>	<b>US\$</b>
Interest on bank deposits	449	25
Interest expenses	(40)	(198)
Safe custody and bank charges	(2,738)	(1,222)
Transaction costs	(12,384)	(9,765)

In addition to the trustee fee payable of US\$590 (2017: US\$537) as disclosed in note 9(b) and the administration fee payable of US\$1,180 (2017: US\$1,074) as disclosed in note 9(c), the Fund had the following balances with the Trustee and its related parties.

	<b>2018</b>	<b>2017</b>
	<b>US\$</b>	<b>US\$</b>
Cash at banks	437,819	68,702
Interest receivable	7	-
Transaction costs payable	(3,570)	(1,620)

During the year ended 30 June 2018 and 2017, the Fund had an uncommitted bank overdraft facility with the Trustee and its related parties as disclosed in note 7.

**FIRST STATE NEW ERA PRC FUND  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2018**

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**10. Soft commission arrangements**

During the year ended 30 June 2018, there was no use of soft commission arrangement with brokerage firms. However, during the year ended 30 June 2017, the Manager made use of commission sharing arrangements with brokerage firms that execute orders or that provide research and advisory services to the Manager. This may include situations where the dealing commission on a particular trade or a series of trades is shared between one or more providers of execution and/or research services. In this case a portion of the commission paid by the Manager to the executing broker is used to purchase third party research or execution services.

**11. Distributions**

No distribution was made during the year ended 30 June 2018 (2017: Nil).

**12. Approval of the financial statements**

The financial statements were approved by the Trustee and the Manager on 18 October 2018.

**FIRST STATE NEW ERA PRC FUND  
INVESTMENT PORTFOLIO (UNAUDITED)  
AS AT 30 JUNE 2018**

	Holdings as at 30.6.2018	Market value US\$	% of net asset value
<b>Listed investments – equities (98.02%)</b>			
<b>Listed on the Stock Exchange of Hong Kong (79.97%)</b>			
AAC Technologies Holdings Inc Com	32,500	457,618	3.31
Aeon Stores (Hong Kong) Co Ltd	100,000	58,234	0.42
ASM Pacific Technology Ltd	33,400	422,198	3.06
China Bluechemical Ltd Shs - H	688,000	253,363	1.83
China Conch Venture Holdings Ltd	64,000	234,056	1.69
China Medical System Holdings Ltd	9,000	17,982	0.13
China Mengniu Dairy Co Ltd	133,000	450,807	3.26
China Merchants Bank Co Ltd - H	163,291	602,377	4.36
China Overseas Grand Oceans Group Ltd	462,000	170,137	1.23
China Overseas Property Holding Co Ltd	397,307	131,631	0.95
China Resources Beer Holdings Co Ltd	46,000	223,327	1.61
China Resources Land Ltd	86,137	290,317	2.10
China Resources Phoenix Healthcare Holdings Co Ltd	138,334	169,222	1.22
China Taiping Insurance Holdings Co Ltd	135,061	422,512	3.05
China Vanke Co Ltd - H	70,326	245,989	1.78
CSPC Pharmaceutical Group Ltd	254,000	767,078	5.55
ENN Energy Holdings Ltd	62,000	609,516	4.41
Fuyao Glass Industry Group Co Ltd - H	45,754	154,502	1.12
Gree Electric Appliances Inc of Zhuhai	40,891	291,148	2.11
Hangzhou Hikvision Digital Technology Co Ltd	21,900	122,793	0.89
JNBY Design Ltd	61,000	139,758	1.01
Li Ning Co Ltd	65,500	72,196	0.52
Luk Fook Holdings International Ltd	42,000	173,669	1.26
Luye Pharma Group Ltd	184,000	188,743	1.36
Midea Group Co Ltd	71,454	563,466	4.07
Minth Group Ltd	96,000	405,520	2.93
Shanghai PRET Composites Co Ltd	12,750	22,142	0.16
Shenzhen Inovance Technology Co Ltd	23,352	115,736	0.84
Shenzhou International Group	32,000	394,918	2.86
Sino Biopharmaceutical Ltd	164,000	251,610	1.82
Sun Art Retail Group Ltd	85,097	111,255	0.80
Techtronic Industries Co Ltd	48,500	270,382	1.95
Tencent Holdings Ltd	17,700	888,191	6.42
Tong Ren Tang Technologies Co Ltd - H	195,000	309,607	2.24
Towngas China Co Ltd	420,113	407,388	2.95
VITASOY International Holdings Ltd	60,000	191,903	1.39
Wasion Holdings Ltd (formerly known as Wasion Group Holdings Ltd)	572,000	310,501	2.25
Xinyi Glass Holdings Co Ltd	120,000	146,642	1.06
		11,058,434	79.97

**FIRST STATE NEW ERA PRC FUND  
INVESTMENT PORTFOLIO (UNAUDITED) (CONTINUED)  
AS AT 30 JUNE 2018**

	Holdings as at 30.6.2018	Market value US\$	% of net asset value
<b>Listed investments – equities (98.02%) (continued)</b>			
<b>Listed on the Stock Exchange of New York, U.S.A. (4.81%)</b>			
Baidu Inc - ADR	1,392	338,256	2.44
Ctrip.Com International Ltd ADR	4,900	233,387	1.69
NetEase Inc ADR	370	93,488	0.68
		665,131	4.81
<b>Listed on the Stock Exchange of Shanghai, People’s Republic of China (7.66%)</b>			
Foshan Haitian Flay & Food Co Ltd	12,599	140,105	1.01
Hongfa Technology Co Ltd - A	29,120	131,570	0.95
Jiangsu Hengrui Medicine Co Ltd	8,118	92,874	0.67
Qingdao Haier Co Ltd	56,820	165,258	1.20
Shanghai International Airport Co Ltd	51,938	435,137	3.15
Zhejiang Chint Electrics Co Ltd	28,100	94,712	0.68
		1,059,656	7.66
<b>Listed on the Stock Exchange of Shenzhen, People’s Republic of China (4.59%)</b>			
China National Accord Medicines Co Ltd - B	62,900	251,754	1.82
Wuxi Little Swan Co Ltd - B	64,100	383,487	2.77
		635,241	4.59
<b>Listed on the Stock Exchange of Taiwan (0.99%)</b>			
Advantech Co Ltd	20,699	136,667	0.99
		136,667	0.99
<b>Total listed investments – equities</b>		13,555,129	98.02
<b>Derivative financial instruments</b>		(12)	(0.00)
Other net assets		274,125	1.98
Net assets as at 30 June 2018		13,829,242	100.00
Total listed investments, at historical cost		8,609,784	

**FIRST STATE NEW ERA PRC FUND**  
**STATEMENT OF MOVEMENTS IN PORTFOLIO HOLDINGS (UNAUDITED)**  
**FOR THE YEAR ENDED 30 JUNE 2018**

Listed investments	Portfolio holdings		Bonus/ Split
	Additions	Disposals	
<b><u>Equities</u></b>			
<b><i>Listed on the Stock Exchange of Hong Kong</i></b>			
A-Living Services Co Ltd - H	45,500	45,500	-
AAC Technologies Holdings Inc Com	1,500	14,500	-
Aeon Stores (Hong Kong) Co Ltd	-	22,500	-
ASM Pacific Technology Ltd	11,100	6,600	-
China Bluechemical Ltd Shs - H	262,000	168,000	-
China Conch Venture Holdings Ltd	68,000	4,000	-
China Literature Ltd	1,324	1,324	-
China Medical System Holdings Ltd	9,000	-	-
China Mengniu Dairy Co Ltd	31,000	58,000	-
China Merchants Bank Co Ltd - H	44,500	27,000	-
China Oilfield Services Ltd	-	112,000	-
China Overseas Grand Oceans Group Ltd	462,000	-	-
China Overseas Property Holding Co Ltd	397,307	-	-
China Resources Beer Holdings Co Ltd	14,000	14,000	-
China Resources Gas Group Ltd	12,000	32,000	-
China Resources Land Ltd	16,000	32,000	-
China Resources Phoenix Healthcare Holdings Co Ltd	7,500	31,000	-
China Resources Power Holdings Co Ltd	-	37,965	-
China Taiping Insurance Holdings Co Ltd	-	59,000	-
China Vanke Co Ltd - H	41,700	19,300	-
CSPC Pharmaceutical Group Ltd	-	138,000	-
ENN Energy Holdings Ltd	6,000	16,000	-
Fuyao Glass Industry Group Co Ltd - H	2,154	26,800	-
Global Brands Group Holdings Ltd	-	904,000	-
Gree Electric Appliances Inc of Zhuhai	-	15,400	-
Hang Lung Group Ltd	-	15,000	-
Hangzhou Hikvision Digital Technology Co Ltd	-	7,200	-
JNBY Design Ltd	214,500	153,500	-
Kingenta Ecological Engineering Group Co Ltd - A	-	58,800	-
Li Ning Co Ltd	65,500	-	-
Luk Fook Holdings International Ltd	42,000	-	-
Luye Pharma Group Ltd	49,000	42,000	-
Midea Group Co Ltd	4,400	16,200	-
Mint Group Ltd	4,000	32,000	-
Pacific Textiles Holdings Ltd	-	74,000	-
Pou Sheng International (Holdings) Ltd	-	732,000	-
Shanghai PRET Composites Co Ltd	8,500	-	4,250
Shenzhen Inovance Technology Co Ltd	-	33,100	-
Shenzhou International Group	-	28,000	-
Sino Biopharmaceutical Ltd	-	141,000	59,000
Sun Art Retail Group Ltd	-	70,000	-
Techtronic Industries Co Ltd	-	11,000	-
Tencent Holdings Ltd	-	5,200	-
Tong Ren Tang Technologies Co Ltd - H	-	120,000	-
Towngas China Co Ltd	-	306,000	-

**FIRST STATE NEW ERA PRC FUND**  
**STATEMENT OF MOVEMENTS IN PORTFOLIO HOLDINGS (UNAUDITED)**  
**(CONTINUED)**  
**FOR THE YEAR ENDED 30 JUNE 2018**

Listed investments	Portfolio holdings		Bonus/ Split
	Additions	Disposals	
<b><u>Equities (continued)</u></b>			
<b><i>Listed on the Stock Exchange of Hong Kong</i></b>			
<b><i>(continued)</i></b>			
Truly International Holdings Ltd	300,000	300,000	-
VITASOY International Holdings Ltd	-	30,000	-
Wasion Holdings Ltd (formerly known as Wasion Group Holdings Ltd)	396,000	110,000	-
Xinyi Glass Holdings Co Ltd	134,000	14,000	-
<b><i>Listed on the Stock Exchange of New York, U.S.A.</i></b>			
Baidu Inc - ADR	434	733	-
Ctrip.Com International Ltd ADR	3,500	900	-
NetEase, Inc ADR	370	-	-
Vipshop Holdings Ltd ADR	-	11,500	-
<b><i>Listed on the Stock Exchange of Shanghai, People's Republic of China</i></b>			
China South Publishing & Media Group Co Ltd	-	82,598	-
Foshan Haitian Flay & Food Co Ltd	-	17,800	-
Hongfa Technology Co Ltd - A	20,800	-	8,320
Jiangsu Hengrui Medicine Co Ltd	-	20,300	2,727
Qingdao Haier Co Ltd	27,500	49,100	-
Shanghai International Airport Co Ltd	29,038	11,100	-
Zhejiang Chint Electrics Co Ltd	32,600	4,500	-
Zhengzhou Yutong Bus Co Ltd	-	40,788	-
<b><i>Listed on the Stock Exchange of Shenzhen, People's Republic of China</i></b>			
China National Accord Medicines Co Ltd - B	10,900	-	-
Luthai Textile Co Ltd - B	-	143,550	-
Wuxi Little Swan Co Ltd - B	64,100	-	-
<b><i>Listed on the Stock Exchange of Taiwan</i></b>			
Advantech Co Ltd	3,000	1,000	-
Delta Electronics Inc	-	69,518	-
<b><i>Listed on the Stock Exchange of Tokyo, Japan</i></b>			
SoftBank Group Corp	-	3,600	-
<b><u>Unlisted investments</u></b>			
<b><u>Rights issue</u></b>			
Tencent - Pref Offer 2017 Nil Paid Rts 31/12/2049	-	18	18

**FIRST STATE NEW ERA PRC FUND  
GENERAL INFORMATION  
FOR THE YEAR ENDED 30 JUNE 2018**

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Manager	First State Investments (Hong Kong) Limited 25th Floor, One Exchange Square 8 Connaught Place Central Hong Kong
Directors of the Manager	Chris Turpin Joe Fernandes (resigned on 8 May 2018) Michael Stapleton Lucinda Kate Dowling (appointed on 8 May 2018)
Trustee and Registrar	HSBC Institutional Trust Services (Asia) Limited 1 Queen's Road Central Hong Kong
Auditor	PricewaterhouseCoopers 22nd Floor, Prince's Building Central Hong Kong
Legal Advisor to the Manager	Deacons Alexandra House 5th Floor 18 Charter Road Central Hong Kong

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\* The SFC has not reviewed the contents of this website.