

# First State New Era PRC Fund

Annual Report

July 2016 - June 2017

# First State New Era PRC Fund

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## Contents

	Pages
Report of the manager	2
Performance table (unaudited)	4
Report of the trustee	5
Independent auditor's report	6
Statement of net assets	10
Statement of comprehensive income	11
Statement of changes in net assets attributable to unitholders	12
Cash flow statement	13
Notes to the financial statements	14
Investment portfolio (unaudited)	35
Statement of movements in portfolio holdings (unaudited)	37
General information	39

This annual report shall not constitute an offer to sell or a solicitation of an offer to buy units in the 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 2017

### Performance

	1 July 2016 to 30 June 2017	1 July 2015 to 30 June 2016
First State New Era PRC Fund Class II	25.69%	-22.32%
Benchmark: MSCI China Free Index	32.34%	-23.20%
	1 July 2016 to 30 June 2017	1 July 2015 to 30 June 2016
First State New Era PRC Fund Class III	26.33%	-22.22%
Benchmark: MSCI China Free Index	32.34%	-23.20%

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

### Market review

The MSCI China index increased by 32.3% in US dollar terms over the 12 months to 30 June 2017. At a sector level, Consumer Discretionary and Information Technology were the best performers, while Telecom Services and Real Estate lagged.

### Fund performance

Key contributors to performance included Tencent, which rose to record highs as the firm announced strong net profits growth driven by a surge in mobile payments and cloud services. ASM Pacific Technology a leading manufacturer of semiconductor back-end equipment and surface-mount-technology (SMT) equipment, benefitted from the renewed product cycle for Samsung and Apple smartphones.

On the negative side, Pou Sheng declined on weaker than expected earnings, amid lacklustre retail spending and increased competition from online sales. Global Brands Group struggled to meet earnings expectations amid the ongoing disruption in the US retail sector. More than 300 retailers in the US have filed for bankruptcy in 2017, which is even worse than during the Global Financial Crisis.

# First State New Era PRC Fund

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## Report of the Manager (continued) for the year ended 30 June 2017

### Major Activity

Significant new purchases over the period included Softbank, an investment vehicle whose major asset is its stake in Alibaba. Decent results from Alibaba as well as its recent purchase of nVidia and ARM have been positive catalysts for the company. Current valuations put the stock at a significant discount to NAV, which we believe should provide a reasonable level of protection. We bought Midea Group, a home appliances manufacturer in China which has decent growth prospects and has been increasing market share. We believe it is reasonably valued at around 12-13x PE.

We divested Lenovo Group due to concerns around the challenging environment in the global PC and gadgets market, and sold Weifu High Tech on concerns around increased competition and the erosion of structural growth drivers for the company's products.

### Outlook

At the start of the year, investors were concerned about the potential depreciation of the renminbi and a rise in trade protectionism under incoming US President Trump. Neither concern has yet materialised: the renminbi has in fact strengthened against the US dollar and China's trade balance has remained relatively stable.

Increased regulatory scrutiny on off-balance sheet wealth management products and the increase in short-term funding costs has made the carry trade (from wholesale financing into wealth management products) less profitable, with a significant decline in credit growth as a result. This is a positive step towards tackling the shadow banking sector and removing risk from the system, in our view.

In the SOE sector, supply-side reforms seem to be on track, with the steel, coal and base metals sectors continuing to close down production capacity and reduce fixed asset investments. We believe this is a positive development that should provide a better balance between supply and demand in the long run.

However, we remain vigilant around near-term risks. Hong Kong and China's property prices seem overheated, in our view, which raises the prospect of more aggressive cooling measures from the government. Meanwhile, a number of internet and technology stocks have tested new year-to-date highs (albeit supported by relatively strong rates of growth), which gives reason to pause. When the market is so upbeat and broadly in consensus, we believe it is usually the right time to be cautious.

## First State New Era PRC Fund

### Performance Table (Unaudited) for the year ended 30 June 2017

#### Net asset values

Financial year	Net asset value US\$	Net asset value per unit in issue US\$
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
30.6.2015 – Class II*	10,274,510	103.93
30.6.2015 – Class III	1,238,202	10.89

#### Performance record

Financial year Ended	Highest price per unit US\$	Lowest price per unit US\$
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	–	–
30.6.2008 – Class II	81.01	51.35
30.6.2008 – 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**

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## **Report of the Trustee for the year ended 30 June 2017**

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 2017.

For and on behalf of

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

Hong Kong, 18 October 2017

# First State New Era PRC Fund

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## Independent Auditor's Report to the Unitholders of First State New Era PRC Fund (the "Fund")

### Report on the Audit of the Financial Statements

#### Opinion

##### *What we have audited*

The financial statements of the Fund set out on pages 10 to 38, which comprise:

- the statement of net assets as at 30 June 2017;
- 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 2017, 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 ("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.

# First State New Era PRC Fund

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## Independent Auditor's Report (continued) to the Unitholders of First State New Era PRC Fund (the "Fund")

### 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.

### Responsibilities of the Management for the Financial Statements

The Management of the Fund is responsible for the preparation of the 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 ("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").

# First State New Era PRC Fund

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## Independent Auditor's Report (continued) to the Unitholders of First State New Era PRC Fund (the "Fund")

### 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 HKSA's 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 HKSA's, 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.
- 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.

## **First State New Era PRC Fund**

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### **Independent Auditor's Report (continued) to the Unitholders of First State New Era PRC Fund (the "Fund")**

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 2017

# First State New Era PRC Fund

## Statement of Net Assets as at 30 June 2017

	Note	2017 US\$	2016 US\$
<b>Assets</b>			
<b>Non-current assets</b>			
Formation cost		12,116	16,113
<b>Current assets</b>			
Investments	4(b)	13,016,836	9,347,678
Dividend receivable		44,292	48,252
Amounts receivable from brokers		50,545	48,610
Cash at banks		68,702	107,482
		13,180,375	9,552,022
<b>Total assets</b>		13,192,491	9,568,135
<b>Liabilities</b>			
<b>Current liabilities</b>			
Derivative financial instruments	6	12	19
Amounts payable on redemption		69,721	53,132
Amounts payable to brokers		–	26,007
Accounts payable and accrued expenses		68,142	66,037
<b>Total liabilities (excluding net assets attributable to unitholders)</b>		137,875	145,195
<b>Net assets attributable to unitholders</b>		13,054,616	9,422,940
<b>Number of units in issue</b>			
– Class II (USD)	3	45,158.78	50,715.53
– Class III (USD)	3	791,686.42	628,672.88
<b>Net assets attributable to unitholders per unit</b>			
– Class II (USD)	3	101.48	80.73
– Class III (USD)	3	10.70	8.47

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 14 to 34 form part of these financial statements.

# First State New Era PRC Fund

## Statement of Comprehensive Income for the year ended 30 June 2017

	Note	2017 US\$	2016 US\$
<b>Income</b>			
Dividend on investments		278,227	219,187
Interest on bank deposits		25	15
Net gains/(losses) on investments and derivative financial instruments	5	2,620,759	(2,531,973)
Other income		1,502	–
Exchange losses		(3,617)	(1,699)
Total net income/(loss)		<u>2,896,896</u>	<u>(2,314,470)</u>
<b>Expenses</b>			
Management fee	9(a)	135,777	131,512
Trustee's fee	9(b)	5,688	5,492
Administration fee	9(c)	12,236	11,977
Auditor's remuneration		31,846	31,120
Legal and professional fee		14,544	10,770
Safe custody and bank charges		1,222	4,234
Interest expenses		198	13
Preliminary expenses		3,997	3,285
Other operating expenses		29,397	38,491
Total operating expenses		<u>234,905</u>	<u>236,894</u>
<b>Profit/(loss) before tax</b>		2,661,991	(2,551,364)
Withholding tax		(16,065)	(11,692)
<b>Increase/(decrease) in net assets attributable to unitholders from operations</b>		<u>2,645,926</u>	<u>(2,563,056)</u>

The notes on pages 14 to 34 form part of these financial statements.

## First State New Era PRC Fund

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### Statement of Changes in Net Assets Attributable to Unitholders for the year ended 30 June 2017

	Note	2017 US\$	2016 US\$
<b>Net assets attributable to unitholders at 1 July</b>		9,422,940	11,512,712
Allotment of units	3	1,499,583	4,431,018
Redemption of units	3	(513,833)	(3,957,734)
Increase/(decrease) in net assets attributable to unitholders from operations		<u>2,645,926</u>	<u>(2,563,056)</u>
<b>Net assets attributable to unitholders at 30 June</b>		<u><u>13,054,616</u></u>	<u><u>9,422,940</u></u>

The notes on pages 14 to 34 form part of these financial statements.

# First State New Era PRC Fund

## Cash Flow Statement for the year ended 30 June 2017

	2017	2016
	US\$	US\$
<b>Cash flows from operating activities</b>		
Purchase of investments and derivative financial instruments	(4,572,642)	(3,133,036)
Proceeds from sale of investments and derivative financial instruments	3,496,294	2,650,788
Dividend received	266,122	243,707
Interest received	25	15
Other income received	1,502	–
Interest paid	(198)	(13)
Administration fee paid	(12,162)	(11,963)
Auditor's remuneration paid	(31,310)	(30,736)
Management fee paid	(132,432)	(136,339)
Trustee's fee paid	(5,533)	(5,598)
Other operating expenses paid	(47,168)	(55,908)
<b>Net cash used in operating activities</b>	(1,037,502)	(479,083)
<b>Cash flows from financing activities</b>		
Allotment of units	1,499,583	4,431,018
Redemption of units	(497,244)	(3,957,734)
<b>Net cash generated from financing activities</b>	1,002,339	473,284
<b>Net decrease in cash and cash equivalents</b>	(35,163)	(5,799)
Effect of foreign exchange rate changes	(3,617)	(1,699)
Cash and cash equivalents at the beginning of the year	107,482	114,980
<b>Cash and cash equivalents at the end of the year</b>	68,702	107,482
<b>Analysis of balance of cash and cash equivalents</b>		
Cash at banks	68,702	107,482

The notes on pages 14 to 34 form part of these financial statements.

# First State New Era PRC Fund

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## Notes to the Financial Statements for the year ended 30 June 2017

### 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 28 January 2015, the Fund may directly invest up to 10% of its total net asset value in certain eligible China A-shares via the Shanghai-Hong Kong Stock Connect (the “Stock Connect”).

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 financial 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 values 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

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## Notes to the Financial Statements (continued) for the year ended 30 June 2017

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

#### (a) *Basis of preparation (continued)*

##### Standards and amendments to existing standards effective from 1 July 2016

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 2016 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 recognition of financial assets and financial liabilities. The complete version of HKFRS 9 was issued in July 2014. 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 ("OCI") 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 OCI 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 were 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 is yet to assess HKFRS 9's full impact and expect 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

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## Notes to the Financial Statements (continued) for the year ended 30 June 2017

### 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 price as its fair valuation input for both financial assets and financial 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 accrual basis.

# First State New Era PRC Fund

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## Notes to the Financial Statements (continued) for the year ended 30 June 2017

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

#### (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 holders of redeemable units 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.

##### (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 rate prevailing at the year end 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 liability. The price at which units are subscribed or redeemed is calculated by reference to the net asset value per unit as at the close of business on the relevant dealing day.

# First State New Era PRC Fund

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## Notes to the Financial Statements (continued) for the year ended 30 June 2017

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

#### (h) *Offsetting financial instruments*

Financial assets and liabilities are offset and the net amount 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/payable to brokers*

Amounts receivable from/payable to brokers represent receivables from investments sold and payables for investments purchased that have been contracted for but not yet settled or delivered by the end of the year.

#### (k) *Preliminary expenses*

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

#### (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 subscriptions 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. Subscriptions and redemptions 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.

# First State New Era PRC Fund

## Notes to the Financial Statements (continued) for the year ended 30 June 2017

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

As at 30 June 2017, the Fund had US\$13,054,616 (2016: US\$9,422,940) of net assets attributable to unitholders which represent a liability in the statement of net assets, carried at the redemption amount that would be payable at the year end date if the unitholders exercised the right to redeem the units in the Fund.

	<b>2017</b>	<b>2016</b>
	<b>Units</b>	<b>Units</b>
Number of Class II units in issue	45,158.78	50,715.53
Number of Class III units in issue	791,686.42	628,672.88

	<b>2017</b>	<b>2016</b>
	<b>US\$</b>	<b>US\$</b>
Net assets attributable to unitholders per Class II unit	101.48	80.73
Net assets attributable to unitholders per Class III unit	10.70	8.47

	<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)	–
Balance at the end of the year	45,158.78	791,686.42

	<b>2016</b>	<b>2016</b>
	<b>Class II</b>	<b>Class III</b>
	<b>Units</b>	<b>Units</b>
Balance at the beginning of the year	98,851.01	113,620.74
Allotment of units	–	515,052.14
Redemption of units	(48,135.48)	–
Balance at the end of the year	50,715.53	628,672.88

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 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.

# First State New Era PRC Fund

## Notes to the Financial Statements (continued) for the year ended 30 June 2017

### 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 28 January 2015, the Fund may directly invest up to 10% of its total net asset value in certain eligible China A-shares via the Stock Connect.

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

As at year end, the overall market exposures were as follows:

	2017		2016	
	Fair value US\$	% of net assets	Fair value US\$	% of net assets
Held for trading:				
– Listed equities	13,016,836	99.71	9,347,678	99.20
	13,016,836	99.71	9,347,678	99.20

# First State New Era PRC Fund

## Notes to the Financial Statements (continued) for the year ended 30 June 2017

### 4. Financial risk management (continued)

#### (b) Market price risk (continued)

The following table shows the market exposure the Fund has to various markets:

	<b>2017</b> <b>US\$</b> <b>equivalents</b>	<b>2016</b> <b>US\$</b> <b>equivalents</b>
Markets exposed to		
China	9,198,620	6,509,565
Hong Kong	3,012,843	2,193,546
Japan	292,417	–
Taiwan	512,956	644,567
	<u>13,016,836</u>	<u>9,347,678</u>

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

The exposure to sectors at 30 June 2017 and 2016 are as follows:

	<b>2017</b> <b>% of net assets</b>	<b>2016</b> <b>% of net assets</b>
Sectors exposed to		
Consumer discretionary	27.28	23.57
Consumer staples	8.45	8.35
Energy	0.69	1.95
Financials	8.18	11.17
Health care	14.84	14.80
Industrials	5.09	4.29
Information technology	20.94	23.84
Materials	1.58	1.08
Real estate	2.00	–
Telecommunication services	2.24	–
Utilities	8.42	10.15
	<u>99.71</u>	<u>99.20</u>

There are no individual investments with market value exceeding 10% of the Fund's net asset value at 30 June 2017 and 2016.

# First State New Era PRC Fund

## Notes to the Financial Statements (continued) for the year ended 30 June 2017

### 4. Financial risk management (continued)

(b) *Market price risk (continued)*

The table below summarizes the impact on the net assets attributable to unitholders, as at 30 June 2017 and 2016, 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 below sensitivity analysis 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.

	2017		2016	
	Change in market index % +/-	Impact US\$ +/-	Change in market index % +/-	Impact US\$ +/-
MSCI China Free Index (Total return)	9.20%	956,004	0.24%	17,325

(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\$68,702 (2016: US\$107,482) at year end, and is therefore exposed to minimal interest rate risk on these bank balances.

# First State New Era PRC Fund

## Notes to the Financial Statements (continued) for the year ended 30 June 2017

### 4. Financial risk management (continued)

#### (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 of a 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 30 June 2017 and 2016.

#### 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

#### At 30 June 2016

	US\$	Credit rating	Source of credit rating
<u>Custodian – custody risk</u>			
HSBC Institutional Trust Services (Asia) Limited	9,347,678	AA-*	Fitch
<u>Bank – credit risk</u>			
The Hongkong and Shanghai Banking Corporation Limited	107,482	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 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 the ultimate holding company.

# First State New Era PRC Fund

## Notes to the Financial Statements (continued) for the year ended 30 June 2017

### 4. Financial risk management (continued)

#### (d) Credit and custody risk (continued)

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 had 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 the 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 uncommitted bank overdraft.

The maximum exposure to credit risk at year end 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.

#### (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 redemption and note 7 for uncommitted bank overdraft facility.

The table below analyses the Fund's financial liabilities into relevant maturity groupings based on the remaining period at the year end 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 balances, as the impact of discounting is not significant.

	Less than 1 month US\$	1-3 months US\$	Over 3 months US\$
<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	–	–
<b>Total financial liabilities</b>	<b>13,094,416</b>	<b>37,639</b>	<b>60,436</b>

# First State New Era PRC Fund

## Notes to the Financial Statements (continued) for the year ended 30 June 2017

### 4. Financial risk management (continued)

#### (e) Liquidity risk (continued)

	Less than 1 month US\$	1-3 months US\$	Over 3 months US\$
<b>At 30 June 2016</b>			
Derivative financial instruments	19	–	–
Amounts payable on redemption	–	–	53,132
Amounts payable to brokers	26,007	–	–
Accounts payable and accrued expenses	14,996	36,765	14,276
Net assets attributable to unitholders	9,422,940	–	–
<b>Total financial liabilities</b>	<b>9,463,962</b>	<b>36,765</b>	<b>67,408</b>

Units are redeemed on demand at the holder's option. As at 30 June 2017, there were 2 (2016: 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 following table illustrates the expected liquidity of assets held:

	Less than 1 month US\$	1-3 months US\$	More than 3 months US\$
<b>At 30 June 2017</b>			
Investments	13,016,836	–	–
Dividend receivable	34,807	9,485	–
Amounts receivable from brokers	50,545	–	–
Formation cost	–	–	12,116
Cash at banks	68,702	–	–
<b>Total assets</b>	<b>13,170,890</b>	<b>9,485</b>	<b>12,116</b>

	Less than 1 month US\$	1-3 months US\$	More than 3 months US\$
<b>At 30 June 2016</b>			
Investments	9,347,678	–	–
Dividend receivable	37,378	10,874	–
Amounts receivable from brokers	48,610	–	–
Formation cost	–	–	16,113
Cash at banks	107,482	–	–
<b>Total assets</b>	<b>9,541,148</b>	<b>10,874</b>	<b>16,113</b>

# First State New Era PRC Fund

## Notes to the Financial Statements (continued) for the year ended 30 June 2017

### 4. Financial risk management (continued)

#### (f) Currency risk

Currency risk is the risk that the value of financial instruments 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 the 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 year end are disclosed in note 6.

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

	2017		2016	
	Monetary US\$	Non- monetary US\$	Monetary US\$	Non- monetary US\$
Chinese Renminbi	–	2,385,692	19,274	758,528
Hong Kong Dollar	65,573	9,278,116	81,475	7,647,808
Japanese Yen	–	292,417	–	–
Taiwan Dollar	3,445	512,956	17,760	644,567

As the Hong Kong dollar is currently linked to the United States dollar, the functional currency, within a narrow range, no sensitivity analysis is performed on Hong Kong dollar.

The table below summarizes the impact on net assets attributable to unitholders 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 respective percentage with all other variables held constant.

	2017			2016		
	Change +/-	Impact Monetary US\$ equivalent	Impact Non- monetary US\$ equivalent	Change +/-	Impact Monetary US\$ equivalent	Impact Non- monetary US\$ equivalent
Chinese Renminbi	5.0%	–	119,285	5.0%	964	37,926
Japanese Yen	5.0%	–	14,621	5.0%	–	–
Taiwan dollar	5.0%	172	25,648	5.0%	888	32,228

# First State New Era PRC Fund

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## Notes to the Financial Statements (continued) for the year ended 30 June 2017

### 4. Financial risk management (continued)

#### (f) Currency risk (continued)

The Manager has used its view of what would be a “reasonable possible shift” in the exchange rates to estimate the change for use in the currency risk sensitivity analysis above.

Disclosures above are shown in absolute terms, changes and impacts could be positive or negative. Changes in exchange rates % are revised annually depending on the Manager’s current view of exchange rates 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) are based on quoted market prices at the close of trading on the year end date. The Fund utilises the last traded market price as its fair valuation inputs for both financial assets and financial 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.

# First State New Era PRC Fund

## Notes to the Financial Statements (continued) for the year ended 30 June 2017

### 4. Financial risk management (continued)

#### (g) Fair value estimation (continued)

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

#### 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
<b>Total assets</b>	<b>13,016,836</b>	<b>–</b>	<b>–</b>	<b>13,016,836</b>
<b>Liabilities</b>				
Held for trading				
– Derivatives	–	12	–	12
<b>Total liabilities</b>	<b>–</b>	<b>12</b>	<b>–</b>	<b>12</b>

#### At 30 June 2016

	Level 1 US\$	Level 2 US\$	Level 3 US\$	Total US\$
<b>Assets</b>				
Held for trading				
– Equities	9,347,678	–	–	9,347,678
<b>Total assets</b>	<b>9,347,678</b>	<b>–</b>	<b>–</b>	<b>9,347,678</b>
<b>Liabilities</b>				
Held for trading				
– Derivatives	–	19	–	19
<b>Total liabilities</b>	<b>–</b>	<b>19</b>	<b>–</b>	<b>19</b>

Financial instruments whose values are based on quoted market prices in active markets, and therefore classified within level 1, include active listed equities. The Fund does not adjust the quoted price for these instruments.

# First State New Era PRC Fund

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## Notes to the Financial Statements (continued) for the year ended 30 June 2017

### 4. Financial risk management (continued)

#### (g) Fair value estimation (continued)

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. These include forward foreign exchange contracts. 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. As at 30 June 2017 and 2016, the Fund did not hold any instruments classified in level 3.

There were no transfers between levels for the years ended 30 June 2017 and 2016.

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 values 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.

# First State New Era PRC Fund

## Notes to the Financial Statements (continued) for the year ended 30 June 2017

### 5. Net gains/(losses) on investments and derivative financial instruments

	2017	2016
	US\$	US\$
Change in unrealised gains/(losses) in value of investments	2,502,080	(2,818,494)
Change in unrealised gains/(losses) on derivative financial instruments	7	(15)
Realised gains on sale of investments	118,672	286,536
	2,620,759	(2,531,973)

### 6. Derivative financial instruments

Derivative financial instruments represents outstanding forward foreign exchange contracts.

	2017		2016	
	US\$	% of net assets	US\$	% of net assets
<b>Derivative financial instruments</b>				
– Forward foreign exchange contracts	(12)	(0.00)	(19)	(0.00)
<b>Total derivative financial instruments</b>				
– liabilities	(12)	(0.00)	(19)	(0.00)

The details of outstanding forward foreign exchange contracts as at year end for the Fund were as follows:

#### 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)
			(12)

#### At 30 June 2016

Contract to deliver	In exchange for	Settlement date	Fair value US\$
TWD155,294	USD4,807	1 July 2016	(7)
HKD160,005	USD20,613	5 July 2016	(10)
HKD28,118	USD3,622	5 July 2016	(2)
			(19)

# First State New Era PRC Fund

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## Notes to the Financial Statements (continued) for the year ended 30 June 2017

### 7. Uncommitted bank overdraft

The Fund had 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 the 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. As at 30 June 2017 and 2016, there was no outstanding payable under the overdraft facility.

### 8. Taxation

- (a) No provision for Hong Kong profits tax has been made as the Fund was authorised as a collective investment scheme under Section 104 of the Hong Kong Securities and Futures Ordinance and is therefore exempted 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 ("SAT") has remained silent on the application of the 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 (a) the current position of the SAT, (b) absence of a withholding mechanism of the relevant tax, and (c) current market practice. Based on assumptions that the withholding tax, if levied, is at 10% of the gross gain, the maximum liability the Fund may be exposed is US\$70,604 (2016: US\$85,777), calculated based on the realised gain and unrealised gain from all investments in B-shares up to 30 June 2017. The Manager has assessed the risk for the Fund to be liable for such tax and considers such risk to be low as at 30 June 2017, and therefore no provision is made.

# First State New Era PRC Fund

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## Notes to the Financial Statements (continued) for the year ended 30 June 2017

### 8. Taxation (continued)

(d) The Fund invests in A-shares of companies listed in the PRC. Under current PRC tax laws, corporate income tax, individual income tax and business tax will be temporarily exempted on gains derived by Hong Kong and overseas investors (including the Fund) on the trading of China A-shares through the Stock Connect 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.

### 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 2017, a management fee of US\$135,777 (2016: US\$131,512) was incurred by the Fund, of which US\$12,641 (2016: US\$9,296) remained payable at 30 June 2017.

#### (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 2017, a trustee fee of US\$5,688 (2016: US\$5,492) was incurred by the Fund, of which US\$537 (2016: US\$382) remained payable at 30 June 2017.

#### (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 2017, an administration fee of US\$12,236 (2016: US\$11,977) was incurred by the Fund, of which US\$1,074 (2016: US\$1,000) remained payable at 30 June 2017.

# First State New Era PRC Fund

## Notes to the Financial Statements (continued) for the year ended 30 June 2017

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

#### (d) Subscription charge

The Manager is entitled to a preliminary charge of 5% relating to unit subscriptions in the Fund. For the year ended 30 June 2017, units have been issued but no subscription charge has been levied by the Manager (2016: Nil).

#### (e) Cross trade with fund 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 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. There was no similar transaction in the year ended 30 June 2016.

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

In addition to the trustee's fee of US\$5,688 (2016: US\$5,492) as disclosed in note 9(b) and the administration fee of US\$12,236 (2016: US\$11,977) as disclosed in note 9(c), the Fund had the following additional 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>2017</b>	<b>2016</b>
	<b>US\$</b>	<b>US\$</b>
Interest on bank deposits	25	15
Transaction costs	9,765	9,900
Interest expense	198	13
Safe custody and bank charges	1,222	4,234

In addition to the trustee fee payable of US\$537 (2016: US\$382) as disclosed in note 9(b) and the administration fee payable of US\$1,074 (2016: US\$1,000) as disclosed in note 9(c), the Fund had the following additional balances with the Trustee and its related parties.

	<b>2017</b>	<b>2016</b>
	<b>US\$</b>	<b>US\$</b>
Bank balances	68,702	107,482
Transaction costs payable	1,620	1,305

During the year ended 30 June 2017 and 2016, the Fund had an uncommitted bank overdraft with the Trustee and its related parties as disclosed in note 7.

## **First State New Era PRC Fund**

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### **Notes to the Financial Statements (continued) for the year ended 30 June 2017**

#### **10. Soft commission arrangements**

The Manager may make 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. The Manager made use of commission sharing arrangement during the year ended 30 June 2017 and 2016. The brokerage firm has provided execution services in this period and a portion of commission paid has been used to purchase third party research services.

#### **11. Distributions**

No distribution was made during the year (2016: Nil).

#### **12. Approval of the financial statements**

The financial statements were approved by the Trustee and the Manager on 18 October 2017.

# First State New Era PRC Fund

## Investment Portfolio (Unaudited) as at 30 June 2017

	Holdings as at 30.6.2017	Market value US\$	% of net asset value
<b>Listed investments – equities (99.71%)</b>			
<b>Listed on the Stock Exchange of Hong Kong (77.42%)</b>			
AAC Technologies Hldg Inc Com	45,500	569,016	4.36
Aeon Stores (Hong Kong) Co Ltd	122,500	110,032	0.84
ASM Pacific Technology Ltd	28,900	390,673	2.99
China Bluechemical Ltd Shs – H	594,000	140,806	1.08
China Mengniu Dairy Co Ltd	160,000	313,671	2.40
China Merchants Bank Co Ltd – H	145,791	439,931	3.37
China Oilfield Services Ltd	112,000	89,837	0.69
China Resources Beer Holdings Co Ltd	46,000	116,115	0.89
China Resources Gas Group Ltd	20,000	68,295	0.52
China Resources Land Ltd	102,137	297,734	2.28
China Resources Phoenix Healthcare Holdings Co Ltd	161,834	199,277	1.53
China Resources Power Holdings Co Ltd	37,965	74,526	0.57
China Taiping Insurance Holdings Co Ltd	194,061	491,844	3.77
China Vanke Co Ltd – H	47,926	135,715	1.04
CSPC Pharmaceutical Group Ltd	392,000	572,604	4.39
ENN Energy Holdings Ltd	72,000	434,527	3.33
Fuyao Glass Industry Group Co Ltd – H	70,400	269,716	2.07
Global Brands Group Holdings Ltd	904,000	94,983	0.73
Gree Electric Appliances Inc of Zhuhai	56,291	342,362	2.62
Hang Lung Group Ltd	15,000	62,081	0.47
Hangzhou Hikvision Digital Technology Co Ltd	29,100	138,855	1.06
Kingenta Ecological Engineering Group Co Ltd – A	58,800	65,409	0.50
Luye Pharma Group Ltd	177,000	97,069	0.74
Midea Group Co Ltd	83,254	529,350	4.05
Minth Group Ltd	124,000	525,912	4.03
Pacific Textiles Holdings Ltd	74,000	85,432	0.65
Pou Sheng International (Holdings) Ltd	732,000	131,311	1.01
Shenzhen Inovance Technology Co Ltd	56,452	212,993	1.63
Shenzhou International Group	60,000	394,395	3.02
Sino Biopharmaceutical Ltd	246,000	217,494	1.67
Sun Art Retail Group Ltd	155,097	123,611	0.95
Techtronic Industries Co Ltd	59,500	273,700	2.10
Tencent Holdings Ltd	22,900	819,246	6.28
Tong Ren Tang Technologies Co Ltd – H	315,000	486,767	3.73
Towngas China Co Ltd	726,113	474,502	3.63
VITASOY International Holdings Ltd	90,000	185,204	1.42
Wasion Group Holdings Ltd	286,000	131,560	1.01
		<u>10,106,555</u>	<u>77.42</u>

# First State New Era PRC Fund

## Investment Portfolio (Unaudited) (continued) as at 30 June 2017

	Holdings as at 30.6.2017	Market value US\$	% of net asset value
<b>Listed investments – equities (99.71%) (continued)</b>			
<b>Listed on the Stock Exchange of New York, U.S.A. (4.19%)</b>			
Baidu Inc – ADR	1,691	302,452	2.31
Ctrip.Com International Ltd ADR	2,300	123,878	0.95
Vipshop Holdings Ltd ADR	11,500	121,325	0.93
		547,655	4.19
<b>Listed on the Stock Exchange of Shanghai, People's Republic of China (8.40%)</b>			
China South Publishing & Media Group Co Ltd	82,598	227,448	1.74
Foshan Haitian Flav & Food Co Ltd	30,399	183,135	1.40
Jiangsu Hengrui Medicine Co Ltd	25,691	192,004	1.47
Qingdao Haier Co Ltd	78,420	174,353	1.34
Shanghai International Airport Co Ltd	34,000	187,400	1.44
Zhengzhou Yutong Bus Co Ltd	40,788	132,382	1.01
		1,096,722	8.40
<b>Listed on the Stock Exchange of Shenzhen, People's Republic of China (3.53%)</b>			
China National Accord Medicines Co Ltd – B	52,000	302,898	2.32
Luthai Textile Co Ltd – B	143,550	157,633	1.21
		460,531	3.53
<b>Listed on the Stock Exchange of Taiwan (3.93%)</b>			
Advantech Co Ltd	18,699	132,464	1.02
Delta Electronics Inc	69,518	380,492	2.91
		512,956	3.93
<b>Listed on the Stock Exchange of Tokyo, Japan (2.24%)</b>			
SoftBank Group Corp	3,600	292,417	2.24
		292,417	2.24
<b>Total listed investments – equities</b>		13,016,836	99.71
<b>Derivative financial instruments</b>		(12)	(0.00)
Other net assets		37,792	0.29
Net assets as at 30 June 2017		13,054,616	100.00
Total listed investments, at historical cost		10,081,552	

## First State New Era PRC Fund

### Statement of Movements in Portfolio Holdings (Unaudited) for the year ended 30 June 2017

Listed investments	Portfolio holdings		Bonus/ Split
	Additions	Disposals	
<b>Equities</b>			
<i>Listed on the Stock Exchange of Hong Kong</i>			
AAC Technologies Hldg Inc Com	14,000	5,500	–
Aeon Stores (Hong Kong) Co Ltd	20,000	–	–
ASM Pacific Technology Ltd	–	10,600	–
Changan Minsheng APLL Logistic	–	54,000	–
China Bluechemical Ltd Shs – H	96,000	80,000	–
China Mengniu Dairy Co Ltd	–	47,000	–
China Oilfield Services Ltd	–	128,000	–
China Resources Beer Holdings Co Ltd	46,000	–	–
China Resources Gas Group Ltd	–	16,000	–
China Resources Land Ltd	68,000	–	–
China Resources Phoenix Healthcare Holdings Co Ltd	161,834	–	–
China Resources Power Holdings Co Ltd	–	20,000	–
China Taiping Insurance Holdings Co Ltd	–	4,800	–
China Vanke Co Ltd – H	–	43,000	–
CSPC Pharmaceutical Group Ltd	62,000	46,000	–
Fuyao Glass Industry Group Co Ltd – H	11,600	10,800	–
Global Brands Group Holdings	1,026,000	122,000	–
Gree Electric Appliances Inc of Zhuhai	56,291	–	–
Hang Lung Group Ltd	–	18,000	–
Hangzhou Hikvision Digital Technology Co Ltd	19,400	–	9,700
Kingenta Ecological Engineering Group Co Ltd – A	58,800	–	–
Lenovo Group Ltd	–	304,000	–
Li & Fung Ltd	214,000	396,000	–
Luye Pharma Group Ltd	42,000	–	–
Midea Group Co Ltd	83,254	–	–
Minth Group Ltd	80,000	52,000	–
Pacific Textiles Holdings Ltd	10,000	–	–
Pou Sheng International (Holdings) Ltd	389,000	–	–
Q Technology Group Co Ltd	141,000	141,000	–
Shenzhen Inovance Technology Co Ltd	56,452	–	–
Shenzhou International Group	15,000	16,000	–
Sino Biopharmaceutical Ltd	–	68,000	–
Sun Art Retail Group Ltd	–	71,500	–
TCC International Holdings Ltd	506,000	506,000	–
Techtronic Industries Co Ltd	59,500	–	–
Tencent Holdings Ltd	1,400	–	–
Tong Ren Tang Technologies Co Ltd – H	29,000	41,000	–
Towngas China Co Ltd	47,000	71,000	–
Truly International Holdings Ltd	32,000	280,000	–
VITASOY International Holdings Ltd	18,000	–	–
Wasion Group Holdings Ltd	112,000	16,000	–
Xinjiang Goldwind Sci & Tech – H	–	24,400	–
Yue Yuen Industrial Holdings Ltd	17,500	35,500	–

# First State New Era PRC Fund

## Statement of Movements in Portfolio Holdings (Unaudited) (continued) for the year ended 30 June 2017

Listed investments (continued)	Portfolio holdings		Bonus/ Split
	Additions	Disposals	
<b>Equities (continued)</b>			
<b><i>Listed on the Stock Exchange of New York, U.S.A.</i></b>			
Baidu Inc – ADR	704	810	–
Ctrip.Com International Ltd ADR	2,300	–	–
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	24,498	–	–
Foshan Haitian Flav & Food Co Ltd	10,800	10,500	–
Huayu Automotive Systems	–	40,969	–
Jiangsu Hengrui Medicine Co Ltd	18,288	8,800	4,565
Shanghai International Airport Co Ltd	9,900	4,800	–
Zhengzhou Yutong Bus Co Ltd	33,400	22,700	–
<b><i>Listed on the Stock Exchange of Shenzhen, People's Republic of China</i></b>			
China National Accord Medicines Co Ltd – B	24,200	–	–
Jiangling Motors Corp Ltd – B	–	39,956	–
Luthai Textile Co Ltd – B	–	160,100	–
Weifu High-Technology Co Ltd – B	–	63,712	–
<b><i>Listed on the Stock Exchange of Taiwan</i></b>			
Advantech Co Ltd	4,000	–	1,699
ASUSTeK Computer Inc	–	11,000	–
Delta Electronics Inc	–	8,000	–
Giant Manufacturing Co Ltd	–	13,000	–
<b><i>Listed on the Stock Exchange of Tokyo, Japan</i></b>			
SoftBank Group Corp	3,600	–	–

# First State New Era PRC Fund

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## General Information for the year ended 30 June 2017

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 Michael Stapleton
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.