

# New Era PRC Fund

Annual Report

July 2008 – June 2009

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

# New ERA PRC Fund

## Report of the Manager

for the year ended 30 June 2009

### Performance

	1 July 2008 to 30 June 2009	1 July 2007 to 30 June 2008
New Era PRC Fund	-8.73%	-0.76%
Benchmark: MSCI China Free Index	-8.15%	0.72%

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

Over the year to 30 June 2009 the MSCI China Index fell by 8.1% in US dollar terms, outperforming the MSCI World Index which declined by 29.0%.

In the first half of the year the Chinese markets fell with global markets on concerns that the severe credit crunch would have a significant impact on global growth. However, thereafter markets rallied strongly as investors responded positively to the significant stimulus package announced by the government and indications that the Chinese economy was recovering.

Over the year performance was positively impacted by Hengan International (Consumer Staples) which rose as investors sought companies with relatively predictable earnings. Tencent Holdings (Information Technology) gained strongly on robust earnings momentum in online gaming and clothes retailer, China Dongxiang, outperformed on rising sales, helped by discounted prices.

On the negative side, Lenovo (Information Technology) was impacted by a profit warning caused by weak PC demand and China Mengniu Dairy (Consumer Staples) fell heavily following a milk contamination scandal in Mainland China. China Shipping Development (Industrials) suffered due to concerns about falling shipping rates.

Significant new positions over the year included Mindray Medical (Health Care) which offers growth potential from the expansion of the number of hospitals in rural China, and Li Ning, a quality Chinese sports brand company which should be able to boost margins by cutting advertising expenditure. We bought Kerry Properties as it had fallen to an attractive valuation level.

We sold Li & Fung (Consumer Discretionary) as it appeared expensive, particularly given weaker demand for its products in the US, and Foxconn International due to the weakening demand environment. We sold Parkson Retail (Consumer Discretionary) on valuation concerns.

We remain focused on companies with more visible earnings growth and proven management track records. We will continue to reduce our positions in cyclical stocks as they rally to less attractive valuations. Looking to the long-term, the process of urbanisation should continue to drive the growth of the Chinese domestic economy.

# New ERA PRC Fund

## Performance Table (Unaudited)

for the year ended 30 June 2009

### Net Asset Values

Financial year ended	Net asset value of the Fund US\$	Net asset value per unit in issue US\$
30.6.2009	8,731,698	51.03
30.6.2008	9,951,982	55.91
30.6.2007	12,451,823	56.35

### Performance Record

Financial year ended	Highest issue price per unit US\$	Lowest redemption price per unit US\$
30.6.2009	59.58	25.52
30.6.2008	81.01	51.35
30.6.2007	56.96	29.76
30.6.2006	32.98	20.93
30.6.2005	22.05	16.26
30.6.2004	19.73	11.16
30.6.2003	11.33	8.44
30.6.2002 (since inception)	10.39	10.33

# New ERA PRC Fund

## Performance Table (Unaudited) (continued)

for the year ended 30 June 2009

### Financial Summary

Results	Year ended 30.6.2009 US\$	Year ended 30.6.2008 US\$	Year ended 30.6.2007 US\$	Year ended 30.6.2006 US\$	Year ended 30.6.2005 US\$
Net income/(loss) before investment and exchange (losses)/gains	26,804	19,218	(313,398)	217,915	252,999
Net investment and exchange (losses)/gains	(953,659)	392,185	18,300,499	9,506,732	5,432,585
(Decrease)/increase in net assets attributable to unitholders for the year/period	(926,855)	411,403	17,987,101	9,724,647	5,685,584
Assets and liabilities	2009 US\$	2008 US\$	2007 US\$	2006 US\$	2005 US\$
Total assets	8,743,241	9,977,455	12,538,525	34,654,075	25,496,473
Total liabilities	(11,543)	(25,473)	(86,702)	(82,460)	(112,846)
Net assets attributable to unitholders	8,731,698	9,951,982	12,451,823	34,571,615	25,383,627

#### Notes:

- 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 results of the Fund for the year ended 30 June 2009 and the assets and liabilities of the Fund as at 30 June 2009 have been extracted from the audited statement of operations and audited statement of net assets set out on pages 7 and 8 of this annual report.

# New ERA PRC Fund

## Report of the Trustee

for the year ended 30 June 2009

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 2009.

For and on behalf of

HSBC Institutional Trust Services (Asia) Limited  
as the Trustee of  
the New ERA PRC Fund

Hong Kong, 21 October 2009

# New ERA PRC Fund

## Independent Auditor's Report

To the unitholders of New ERA PRC Fund (The "Fund")

### **Report on the financial statements**

We have audited the financial statements of the Fund set out on pages 7 to 21, which comprise the Statement of Net Assets as at 30 June 2009, and the Statement of Operations, Statement of Changes in Net Assets Attributable to Unitholders and Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### **Management's responsibility for the financial statements**

The Trustee and the Manager (the "Management") of the Fund are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and are responsible for ensuring 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 the relevant financial statements disclosure provisions specified in Appendix E of the Code on Unit Trusts and Mutual Funds established by the Securities and Futures Commission of Hong Kong (the "SFC Code"). This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### **Auditor's responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit and to 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.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and true and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinion**

In our opinion, the financial statements give a true and fair view of the financial position of the Fund as at 30 June 2009, and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards.

## **Report on other legal and regulatory disclosure requirements**

We report that the financial statements have been properly prepared in accordance with the relevant disclosure provisions of the Trust Deed and the relevant financial statements disclosure provisions specified in the SFC Code.

### **PricewaterhouseCoopers**

Certified Public Accountants

Hong Kong, 21 October 2009



# New ERA PRC Fund

## Statement of Net Assets as at 30 June 2009

	Note	2009 US\$	2008 US\$
<b>Assets</b>			
Investments	4(b)	8,647,519	9,566,918
Dividend receivable and other receivables		14,617	25,121
Cash at banks		81,105	385,416
<b>Total assets</b>		<b>8,743,241</b>	<b>9,977,455</b>
<b>Liabilities</b>			
Amounts payable on redemption		–	7,764
Amounts payable to brokers		3,883	49,685
Accounts payable and accrued expenses		45,326	42,281
<b>Liabilities (excluding net assets attributable to unitholders)</b>		<b>49,209</b>	<b>99,730</b>
<b>Net assets attributable to unitholders (at bid market prices)</b>		<b>8,694,032</b>	<b>9,877,725</b>
Adjustments from bid market prices to last traded market prices	3	37,666	74,257
<b>Net assets attributable to unitholders (at last traded market prices)</b>	<b>3</b>	<b>8,731,698</b>	<b>9,951,982</b>
<b>Number of Units in Issue</b>		<b>171,089.78</b>	<b>177,994.40</b>
<b>Net assets attributable to unitholders per unit</b>		<b>51.03</b>	<b>55.91</b>

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 11 to 21 form part of these financial statements.

# New ERA PRC Fund

## Statement of Operations

for the year ended 30 June 2009

	Note	2009 US\$	2008 US\$
<b>Income</b>			
Interest on bank deposits		475	7,563
Dividend on investments		253,958	240,725
Net (losses)/gains on investments	5	(953,060)	394,248
Exchange losses		(599)	(2,063)
<b>Total investment (loss)/income</b>		<b>(699,226)</b>	<b>640,473</b>
<b>Expenses</b>			
Management fee	8(a)	107,000	198,088
Trustee's fee	8(b)	3,567	6,603
Administration fee	8(c)	12,000	13,493
Auditor's remuneration		31,250	21,000
Interest expense		119	548
Legal & professional fee		181	-
Safe custody and bank charges		3,235	825
Other operating expenses		28,655	28,182
<b>Total operating expenses</b>		<b>186,007</b>	<b>268,739</b>
<b>Net operating (loss)/income before tax</b>		<b>(885,233)</b>	<b>371,734</b>
Withholding tax		(5,031)	-
<b>Net operating (loss)/income after tax</b>		<b>(890,264)</b>	<b>371,734</b>
Change in adjustments from bid market prices to last traded market prices	3	(36,591)	39,669
<b>(Decrease)/increase in net assets attributable to unitholders from operations</b>		<b>(926,855)</b>	<b>411,403</b>
<b>(Decrease)/increase in net assets attributable to unitholders per unit</b>	11	<b>(5.26)</b>	<b>2.04</b>

The notes on pages 11 to 21 form part of these financial statements.

# New ERA PRC Fund

## Statement of Changes in Net Assets Attributable to Unitholders for the year ended 30 June 2009

	2009		2008	
	Units	US\$	Units	US\$
Balance at the beginning of the year	177,994.40	9,951,982	220,965.88	12,451,823
Redemption of units	(6,904.62)	(293,429)	(42,971.48)	(2,911,244)
(Decrease)/increase in net assets attributable to unitholders from operations	-	(926,855)	-	411,403
Balance at the end of the year	171,089.78	8,731,698	177,994.40	9,951,982

The notes on pages 11 to 21 form part of these financial statements.

# New ERA PRC Fund

## Cash Flow Statement

for the year ended 30 June 2009

	2009 US\$	2008 US\$
<b>Cash flows from operating activities</b>		
Purchase of investments	(3,003,105)	(7,380,544)
Proceeds from sale of investments	2,923,642	10,613,199
Dividend received	259,273	226,209
Interest received	633	8,807
Interest paid	(119)	(548)
Administration fee paid	(12,000)	(13,500)
Auditor's remuneration paid	(28,250)	(19,000)
Management fee paid	(109,118)	(200,393)
Trustee's fee paid	(3,638)	(6,680)
Other operating expenses	(29,837)	(34,352)
Net cash (used in)/generated from operating activities	(2,519)	3,193,198
<b>Cash flows from financing activities</b>		
Redemption of units	(301,193)	(2,904,162)
<b>Net cash used in financing activities</b>	<b>(301,193)</b>	<b>(2,904,162)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(303,712)</b>	<b>289,036</b>
Effect of foreign exchange rate changes	(599)	(2,063)
Cash and cash equivalents at the beginning of the year	385,416	98,443
<b>Cash and cash equivalents at the end of the year</b>	<b>81,105</b>	<b>385,416</b>
<b>Analysis of balance of cash and cash equivalents</b>		
Cash at banks	81,105	385,416

The notes on pages 11 to 21 form part of these financial statements.

# New ERA PRC Fund

## Notes to the Financial Statements

as at 30 June 2009

### 1. The Fund

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 Securities and Futures Ordinance and is also listed under Chapter 20 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. It is required to comply with the Code on Unit Trusts and Mutual Funds established by the Securities and Futures Commission of Hong Kong. The investment objective of the Fund is 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.

### 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 (“HKFRS”) 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 held at fair value through profit or loss.

The preparation of financial statements in conformity with HKFRS requires the Trustee to make judgements, 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 judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

#### Amendments to standards effective in current year

HKAS 39, “Financial Instruments: Recognition and Measurement”, amendment on reclassification of financial assets permits reclassification of certain financial assets out of the held-for-trading and available-for-sale categories if specified conditions are met. The related amendment to HKFRS 7, “Financial Instruments: Disclosures”, introduces disclosure requirements with respect to financial assets reclassified out of the held-for-trading and available-for-sale categories. The amendment is effective prospectively from 1 July 2008. This amendment does not have any impact on the Fund’s financial statements, as the Fund has not reclassified any financial assets.

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

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

#### **New standards and amendments to standards that are not yet effective and have not been early adopted by the Fund**

HKAS 1 (Revised), “Presentation of Financial Statements” (effective from 1 January 2009). The revised standard will prohibit the presentation of items of income and expenses (that is, ‘non-owner changes in equity’) in the statement of changes in equity, requiring ‘non-owner changes in equity’ to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated statement of net assets as at the beginning of the comparative period in addition to the current requirement to present statement of net assets at the end of the current period and comparative period. The Fund will apply HKAS 1 (Revised) from 1 July 2009 and it is likely the Fund will present solely a statement of comprehensive income. This change is not expected to significantly change the presentation of the Fund’s performance statement.

HKAS 1 (Amendment), “Presentation of Financial Statements” (effective from 1 January 2009). The amendment clarifies that some rather than all financial assets and liabilities classified as held for trading in accordance with HKAS 39, “Financial Instruments: Recognition and Measurement”, are examples of current assets and liabilities respectively. The Fund will apply the amendments from 1 July 2009. However, it is not expected to have an impact on the Fund’s financial statements.

HKAS 32 (Amendment), “Financial Instruments: Presentation”, and HKAS 1 (Amendment), “Presentation of Financial Instruments – Puttable Financial Instruments and Obligations Arising on Liquidation” (effective from 1 January 2009). The amended standards require entities to classify puttable financial instruments and instruments, or components of instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation as equity, provided the financial instruments have particular features and meet specific conditions, including that all financial instruments in the class of instruments that is subordinate to all other instruments have identical features. The Fund will apply the amendments from 1 July 2009. The Trustee is currently assessing the impact of these amendments.

HKAS 39 (Amendment), “Financial Instruments: Recognition and Measurement” (effective from 1 January 2009). The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading is also amended. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit-taking is included in such a portfolio on initial recognition. The Fund will apply the HKAS 39 (Amendment) from 1 July 2009. However, it is not expected to have an impact on the Fund’s income statement.

# New ERA PRC Fund

## Notes to the Financial Statements (continued)

as at 30 June 2009

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

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

##### **New standards and amendments to standards that are not yet effective and have not been early adopted by the Fund (continued)**

HKFRS 8, "Operating Segments" (effective from 1 January 2009). It requires a "management approach" which segment information is presented on the same basis as that used for internal reporting purposes. However, it is not expected to have a significant impact on the Fund's financial statements.

Amendment to HKFRS 7, "Financial Instruments: Disclosures" (effective from 1 January 2009). The amendment increases the disclosure requirements about fair value measurement and amends the disclosure about liquidity risk. The amendment introduces a three-level hierarchy for fair value measurement disclosures about financial instruments and requires some specific quantitative disclosures for those instruments classified in the lowest level in the hierarchy. These disclosures will help to improve comparability between entities about the effects of fair value measurements. In addition, the amendment clarifies and enhances the existing requirements for the disclosure of liquidity risk primarily requiring a separate liquidity risk analysis for derivative and non-derivative financial liabilities. It also requires a maturity analysis for financial assets where the information is needed to understand the nature and context of liquidity risk. The Fund will make additional relevant disclosures in its financial statements from 1 July 2009.

There are a number of minor amendments to HKAS 8, "Accounting Policies, Changes in Accounting Estimates and Errors", HKAS 10, "Events after the Balance Sheet Date", and HKAS 18, "Revenue" (all effective from 1 January 2009) which are not addressed above. These amendments are unlikely to have an impact on the Fund's financial statements and have therefore not been analysed in detail.

The Statement of Net Assets presents assets and liabilities in increasing order of liquidity and does not distinguish between current and non-current items.

#### (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 Operations 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.

Investments that are listed or traded on an exchange are fair valued based on quoted bid market prices.

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

### (c) 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.

### (d) 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 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 Operations.

Foreign exchange gains and losses relating to cash and cash equivalents are presented in the Statement of Operations 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 Operations within "net gains/(losses) on investments".

### (e) Expenses

Expenses are accounted for on an accruals basis.

### (f) Subscription and redemption of units

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. The basis adopted by the Fund in arriving at the net asset value per unit for subscription and redemption purposes during the year may not be the same as the accounting principles adopted for the preparation of these financial statements.

### (g) 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.

### (h) 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.



# New ERA PRC Fund

## Notes to the Financial Statements (continued)

as at 30 June 2009

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

#### (i) 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.

#### (j) Corresponding figures

The presentation of certain items and balances in the financial statements has been revised to conform to current year's presentation.

### 3. Net assets attributable to unitholders

The Fund's capital is represented by the units in the Fund, and shown as net assets attributable to unitholders in the Statement of Net Assets. 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 per cent 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.

In accordance with the provisions of the Fund's Trust Deed dated 28 June 2001, as amended, listed investments and investments with prices quoted in over the counter markets or by market makers are stated at the last traded price on the valuation day for the purpose of determining net asset value per unit for subscriptions and redemptions and for various fee calculation. However, as stated in note 2(b), the accounting policy of the Fund for the purpose of financial statements preparation in compliance with HKAS 39 is to value investments at the relevant bid market prices on the year end date. As at 30 June 2009, the valuation of investments in accordance with HKAS 39 as shown in the financial statements results in a decrease in value of investments by US\$37,666 (2008: US\$74,257), compared with using the valuation methodology indicated in the Fund's Trust Deed.

Net assets attributable to unitholders 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 unitholder exercised the right to redeem the units in the Fund. Consequently, the amount of (US\$36,591) (2008: US\$39,669) adjusts the carrying amount of the net assets attributable to unitholders and is recognised in the Statement of Operations. The cumulative differences are included as "Adjustments from bid market prices to last traded market prices" in the Statement of Net Assets.

## 4. Financial risk management

### (a) Strategy in using financial instruments

The investment objective of the Fund is to provide investors with capital growth over the medium to long term by investing in listed shares in Hong Kong, Mainland China, and other financial markets.

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 Investment Manager to maintain a diversified portfolio of investments so as to minimise risk.

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

	2009		2008	
	Fair value US\$	% of net assets	Fair value US\$	% of net assets
Held for trading:				
- Listed equities	8,647,519	99.04	9,566,921	96.13
Forex				
forward/spot	-	-	(3)	-
	8,647,519	99.04	9,566,918	96.13

The following table shows the net market exposure the Fund has to various markets, incorporating the underlying market risk through all financial assets and liabilities held by the Fund.

	2009 US\$ Equivalents	2008 US\$ Equivalents
Markets exposed to		
Australia	163,351	238,612
China	4,311,175	4,125,859
Hong Kong	3,941,714	4,816,028
Singapore	30,020	43,229
USA	201,259	343,193
	8,647,519	9,566,921

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

The net exposures to sectors at 30 June 2009 and 2008 are as follows:

	2009 %	2008 %
Sectors exposed to		
Consumer Discretionary	18.42	18.54
Consumer Staples	19.53	15.29
Energy	6.43	10.60
Financials	13.89	8.76
Health Care	1.78	0.23
Industrials	9.81	14.26
Information Technology	8.04	14.32
Materials	5.47	5.06
Telecommunication Services	7.43	2.53
Utilities	8.24	6.54
	99.04	96.13

There are no individual investments with market value exceeding 10% of the Fund's net asset value at 30 June 2009 and 30 June 2008.

# New ERA PRC Fund

## Notes to the Financial Statements (continued)

as at 30 June 2009

### 4. Financial risk management (continued)

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

The table below summarises the impact on the net assets attributable to unitholders, as at 30 June 2009 and 2008, of a reasonable possible change in the benchmark market index as applied to the respective beta reported by Lipper.

The risk free rate of calculating the beta is changed from CHIBOR to LIBOR as the index was set based on geographic focus previously, now it follows base currency of the Fund, which is USD.

The reasonable possible change in the benchmark market index has been determined by using the last five years annualised benchmark returns.

The performance of the Fund does not necessarily follow the benchmark and the holdings 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.

	2009		2008	
	Change in market index % +/-	Impact US\$ +/-	Change in market index % +/-	Impact US\$ +/-

MSCI China Free Index (Total return)	22.98%	1,689,152	34.14%	2,514,829
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The Investment Manager has used their view of what would be a “reasonable shift” in each key market to estimate the change for use in the market sensitivity analysis above.

Disclosures above are shown in absolute terms, changes and impacts could be positive or negative. Changes in market index % are revised annually depending on management’s current view of market volatility and other relevant factors.

#### (c) Interest rate risk

Interest rate risk is the risk that the value 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\$81,105 (2008: US\$385,416) at year end, 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.

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 summarises the assets placed with the bank and custodian at 30 June 2009 and 2008.

## 4. Financial risk management (continued)

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

At 30 June 2009

	US\$	Credit rating	Source of credit rating
Custodian			
HSBC Institutional Trust Services (Asia) Limited	8,647,519	AA	Fitch
Bank			
The Hongkong and Shanghai Banking Corporation Limited	81,105	AA	Fitch

At 30 June 2008

	US\$	Credit rating	Source of credit rating
Custodian			
HSBC Institutional Trust Services (Asia) Limited	9,566,918	AA	Fitch
Bank			
The Hongkong and Shanghai Banking Corporation Limited	385,416	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.

### (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.

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 2009</b>			
Amounts payable on redemption	-	-	-
Amounts payable to brokers	3,883	-	-
Accounts payable and accrued expenses	12,761	29,100	3,465
Net assets attributable to unitholders (at last traded market prices)	7,871,825	851,535	8,338
<b>Total financial liabilities</b>	<b>7,888,469</b>	<b>880,635</b>	<b>11,803</b>

	Less than 1 month US\$	1-3 months US\$	Over 3 months US\$
<b>At 30 June 2008</b>			
Amounts payable on redemption	7,764	-	-
Amounts payable to brokers	49,685	-	-
Accounts payable and accrued expenses	15,385	21,000	5,896
Net assets attributable to unitholders (at last traded market prices)	8,971,941	970,538	9,503
<b>Total financial liabilities</b>	<b>9,044,775</b>	<b>991,538</b>	<b>15,399</b>

# New ERA PRC Fund

## Notes to the Financial Statements (continued) as at 30 June 2009

### 4. Financial risk management (continued)

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

Units are redeemed on demand at the holder's option. However, the Trustee does not envisage that the contractual maturity disclosed in the table above will be representative of the actual cash outflows, as the holders of these instruments typically retain them for the medium to long term. As at 30 June 2009, there was 1 (2008: 2) unitholder holding over 10% of the Fund's net assets.

#### (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 assets and liabilities denominated in other currencies will fluctuate due to changes in exchange rates.

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

	2009		2008	
	Monetary US\$	Non- monetary US\$	Monetary US\$	Non- monetary US\$
Australian dollar	-	77,950	-	131,312
Hong Kong dollar	(2,783)	8,421,747	(6,913)	9,466,637
Renminbi	10,188	-	10,967	-
Singapore dollar	-	30,020	-	43,229

The table below summarises 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.

	2009			2008		
	Change	Impact	Impact	Change	Impact	Impact
		Monetary US\$	Non- monetary US\$		Monetary US\$	Non- monetary US\$
+/-	+/-	+/-	+/-	+/-	+/-	
Australian dollar	5.0%	-	3,898	5.0%	-	6,566
Renminbi	5.0%	509	-	5.0%	548	-
Singapore dollar	5.0%	-	1,501	5.0%	-	2,161

#### (g) Fair value estimation

As at 30 June 2009 and 2008, the carrying values of assets and liabilities are a reasonable approximation of their fair values.

#### (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 development of 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 (losses)/gains on investments

	2009 US\$	2008 US\$
Change in unrealised gains/losses in value of investments	(646,612)	(4,467,029)
Realised (losses)/gains on sale of investments	(306,448)	4,861,277
	(953,060)	394,248

## 6. Uncommitted bank overdraft and foreign exchange facilities

The Fund had arranged uncommitted overdraft and foreign exchange facilities with The Bank of Bermuda Limited, Hong Kong Branch (the "Branch"). On 15 October 2004, the Branch transferred the arrangement to The Hongkong and Shanghai Banking Corporation Limited ("HSBC"), the Trustee, under the Transfer of Facility and Security Agreement ("Transfer Agreement"). The overdraft facility limit is the lesser of US\$6,000,000 or 25% of the net asset value of the Fund. The foreign exchange facility limit is the lesser of US\$3,600,000 or 15% 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 Transfer Agreement are subject to renewal on an annual basis.

To secure these two facilities, the Fund has granted HSBC a charge over all present and future investments of the Fund. The Fund has utilised both facilities during the year. As at 30 June 2009, there was no outstanding payable under the overdraft facility (2008: Nil). There was no outstanding payable under the foreign exchange facility as at 30 June 2009 (2008: Nil).

## 7. Taxation

No provision for Hong Kong profits tax has been made for the Fund as interest income, dividend income and realised gains on sale of investments are excluded from the charge to profit tax under sections 14, 26 or 26A of the Inland Revenue Ordinance.

## 8. 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 Manager and its connected persons. Connected persons of the Manager are those defined in the Code on Unit Trusts and Mutual Funds established by the Securities and Futures Commission of Hong Kong. Transactions disclosed below do not constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. All such transactions were entered into in the ordinary course of business and on normal commercial terms.

### (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 Fund. The Manager may increase the rate of management fee payable in respect of the Fund up to 2.25% per annum by giving not less than three months' written notice to the Trustee and the unitholders. For the year ended 30 June 2009, a management fee of US\$107,000 (2008: US\$198,088) was incurred by the Fund, of which US\$10,685 (2008: US\$12,849) remained payable at 30 June 2009.

# New ERA PRC Fund

## Notes to the Financial Statements (continued)

as at 30 June 2009

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

#### (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 Manager may increase the rate of trustee fee payable in respect of the Fund up to 1% per annum by giving not less than three months' written notice to the Manager and the unitholders. For the year ended 30 June 2009, a trustee fee of US\$3,567 (2008: US\$6,603) was incurred by the Fund, of which US\$356 (2008: US\$427) remained payable at 30 June 2009.

#### (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 2009, an administration fee of US\$12,000 (2008: US\$13,493) was incurred by the Fund, of which US\$1,000 (2008: US\$1,000) remained payable at 30 June 2009.

#### (d) Subscription charge

The Manager is entitled to a preliminary charge of 2% relating to unit subscriptions in the Fund. For the year ended 30 June 2009, no subscription charge has been levied by the Manager as no units had been issued (2008: Nil).

### 9. Soft commission arrangements

The Manager and its connected persons have not entered into any soft commission arrangements relating to dealing in the assets of the Fund during the year (2008: Nil).

### 10. Distributions

No distribution was made during the year (2008: Nil).

### 11. (Decrease)/increase in net assets attributable to unitholders per unit

The (decrease)/increase in net assets attributable to unitholders per unit was calculated based on the (decrease)/increase in net assets attributable to unitholders from operations for the year of (US\$926,855) (2008: US\$411,403) and the weighted average number of units for the year of 176,091.07 (2008: 201,955.81).

### 12. Approval of the financial statements

The financial statements were approved by the Trustee and the Manager on 21 October 2009.

# New ERA PRC Fund

## Investment Portfolio (Unaudited)

as at 30 June 2009

	Holdings as at 30.6.2009	Market value US\$	% of net asset value
<b>Listed investments – equities (99.04%)</b>			
<i>Listed on the Stock Exchange of Hong Kong (83.69%)</i>			
Anhui Expressway Co Ltd – H	198,000	111,391	1.28
ASM Pacific Technology	10,600	54,710	0.63
Beijing Enterprises Holdings Ltd	21,500	106,807	1.22
Belle International Holdings Ltd	120,000	104,671	1.20
Café De Coral Holdings Ltd	44,000	86,865	0.99
Chen Hsong Holdings Ltd	158,000	39,551	0.45
China Bluechemical Ltd – H	396,000	207,453	2.38
China Communications Services Corp Ltd – H	505,362	311,694	3.58
China Construction Bank Co Ltd – H	130,000	100,645	1.15
China Dongxiang Group Co	180,000	121,007	1.39
China Foods Ltd	90,000	54,116	0.62
China Insurance International Holdings Co Ltd	35,800	75,573	0.87
China Mengniu Dairy Co Ltd	85,000	197,419	2.26
China Merchants Bank Co Ltd – H	155,400	354,513	4.06
China Merchants Holdings International Co Ltd	14,000	40,103	0.46
China Mobile Ltd	7,500	75,097	0.86
China Oilfield Services Ltd	266,000	288,996	3.31
China Resources Enterprise Ltd	164,667	328,059	3.76
China Resources Power Holdings Co Ltd	167,000	371,063	4.25
China Resources Power Holdings Co Ltd Nil Paid Right	16,700	7,111	0.08
China Shanshui Cement Group Co Ltd	85,000	58,897	0.67
China Shipping Development Co Ltd – H	106,500	137,419	1.57
China Telecom Corp Ltd – H	526,000	261,303	2.99
CNOOC Ltd	220,000	272,800	3.12
Dongfeng Motor Group Co Ltd – H	106,000	89,997	1.03
Enric Energy Equipment Holdings Ltd	115,000	56,387	0.65
Global Bio-chem Technology Group Co Ltd	66,000	11,837	0.14
Glorious Sun Enterprises Ltd	107,900	28,124	0.32
GZI Real Estate Investment Trust	137,000	44,547	0.51
Haitian International Holdings	159,000	40,417	0.46
Hengan International Group Co Ltd	112,000	524,594	6.01
Hopewell Highway Infrastructure Ltd	278,400	154,826	1.78
Hopewell Holdings Ltd	14,000	43,716	0.50
Hung Hing Printing Group	296,592	48,220	0.55
IDS Group	61,000	81,858	0.94
Kerry Properties Ltd	34,500	151,355	1.73
Kingboard Chemical Holdings Ltd	97,900	236,729	2.71
Lenovo Group Ltd	536,000	201,259	2.30
Li Ning Co Ltd	55,500	160,771	1.84
Little Sheep Group Ltd	82,000	33,223	0.38
Luk Fook Holdings International Ltd	96,000	42,488	0.49

	Holdings as at 30.6.2009	Market value US\$	% of net asset value
Mintih Group Ltd	296,000	244,821	2.80
Pacific Textiles Holdings Ltd	132,000	35,597	0.41
Ports Design Ltd	42,500	98,819	1.13
Shangri-La Asia Limited	36,000	53,234	0.61
Sino Gold Mining Ltd (HKE)	19,946	86,604	0.99
Tencent Holdings Ltd	18,000	209,961	2.39
Times Ltd	221,000	69,864	0.80
Tingyi (Cayman) Holding Corp	128,000	209,094	2.40
Vinda International Holdings	119,000	66,179	0.76
Want Want China Holdings Ltd	94,000	53,125	0.61
Weichai Power Co Ltd – H	7,000	22,897	0.26
Xiniao Gas Holdings Ltd	200,000	341,161	3.91
Yue Yuen Industrial Holdings Ltd	44,500	98,761	1.13
		7,307,728	83.69
<i>Listed on the Stock Exchange of Singapore (0.34%)</i>			
Guocoland Ltd	27,000	30,020	0.34
<i>Listed on the Stock Exchange of Australia (0.88%)</i>			
Sino Gold Mining Ltd	18,545	76,747	0.88
<i>Listed on the Stock Exchange of Shenzhen, People's Republic of China (12.35%)</i>			
China International Marine Container Group Co Ltd – B	153,700	146,561	1.68
China Vanke Co Ltd – B	285,418	412,475	4.73
Yantai Changyu Pioneer Wine Co – B	84,826	518,697	5.94
		1,077,733	12.35
<i>Listed on the Stock Exchange of New York, U.S.A. (1.78%)</i>			
Mindray Medical International Ltd – ADR	5,558	155,291	1.78
<b>Total listed investments – equities</b>		8,647,519	99.04
<b>Other assets</b>		84,179	0.96
<b>Net assets as at 30 June 2009</b>		8,731,698	100.00
<b>Total listed investments – equities, at cost</b>		7,753,352	



# New ERA PRC Fund

## Statement of movements in portfolio holdings (Unaudited)

For the year ended 30 June 2009

	Portfolio holdings		Bonus/ Split		Portfolio holdings		Bonus/ Split
	Additions	Disposals			Additions	Disposals	
<b>Equities</b>							
<i>Listed on the Stock Exchange of Hong Kong</i>							
Anhui Conch Cement Co Ltd – H	6,000	14,000	–	Luk Fook Holdings International Ltd	–	24,000	–
Anhui Expressway Co Ltd – H	54,000	40,000	–	Minth Group Ltd	28,000	–	–
ASM Pacific Technology	1,300	10,900	–	Parkson Retail Group Ltd	–	10,500	–
Beijing Enterprises Holdings Ltd	13,000	5,500	–	Portrs Design Ltd	20,000	39,500	–
Belle International Holdings Ltd	46,000	78,000	–	Pou Sheng International (Holdings) Ltd	–	700	–
Byd Electronic Co Ltd	38,000	107,500	–	Shandong Weigao Group Medical Polymer Co	–	16,000	–
Café de Coral Holdings Ltd	44,000	–	–	Shangri-La Asia Limited	4,000	4,000	–
China Bluechemical Ltd – H	296,000	–	–	Tencent Holdings Ltd	12,800	17,400	–
China Communications Service Corp Ltd – H	190,000	138,000	–	Times Ltd	84,000	–	–
China Construction Bank – H	130,000	–	–	Tingya (Cayman) Holdings Corp	84,000	64,000	–
China Dongxiang Group Co	35,000	177,000	–	Vinda International Holdings	22,000	35,000	–
China Foods Ltd	104,000	14,000	–	Want Want China Holdings Ltd	94,000	–	–
China Insurance International Holdings Co Ltd	35,800	–	–	Weichai Power Co Ltd – H	14,000	7,000	–
China Mengniu Dairy Co Ltd	17,000	143,000	–	Xinao Gas Holdings Ltd	24,000	–	–
China Merchants Bank Co Ltd – H	61,500	53,500	41,400	Yue Yuen Industrial Holdings Ltd	26,000	11,000	–
China Merchants Holdings International Co Ltd	6,000	44,000	–	<i>Listed on the Stock Exchange of Sydney, Australia</i>			
China Mobile Ltd	12,000	4,500	–	Sino Gold Mining Ltd	–	4,856	–
China Oilfield Services Ltd	96,000	102,000	–	<i>Listed on the Stock Exchange of New York, USA</i>			
China Resources Land Ltd	–	52,000	–	Mindray Medical International Ltd ADR	5,558	–	–
China Resources Power Holdings Co Ltd	84,000	62,000	–	<i>Listed on the Stock Exchange of Shenzhen, People's Republic of China</i>			
China Resources Power Holdings Co Ltd Nil Paid Right	–	–	16,700	China International Marine Container Group Co Ltd – B	69,300	4,900	–
China Resources Enterprise Ltd	22,000	16,000	–	China Vanke Co Ltd – B	77,695	77,285	–
China Shanshui Cement Group Co Ltd	85,000	–	–	Yantai Changyu Pioneer Wine – B	24,467	–	–
China Shipping Development Co Ltd – H	120,000	146,000	–				
China Telecom Corp Ltd – H	184,000	122,000	–				
CNOOC Ltd	60,000	108,000	–				
Denway Motors Ltd	112,000	284,000	–				
Dongfeng Motor Group Co Ltd – H	22,000	90,000	–				
Enric Energy Equipment Holdings Ltd	–	44,000	–				
Fosun International	–	88,000	–				
Foxconn Intl Holdings	–	81,942	–				
Global Bio-chem Technology Group Co Ltd	66,000	–	–				
GZI Real Estate Investment Trust	–	38,000	–				
Hong Kong Aircraft Engineering Co Ltd	–	3,200	–				
Hengan International Group Co Ltd	24,000	24,000	–				
Hong Kong & China Gas	15,000	15,000	–				
Hopewell Highway Infrastructure Ltd	–	69,000	–				
Hopewell Holdings Ltd	14,000	–	–				
IDS Group	–	5,000	–				
Kerry Properties Ltd	41,000	6,500	–				
Kingboard Chemical Holdings Ltd	48,500	16,500	–				
Lenovo Group Ltd	162,000	134,000	–				
Li & Fung Ltd	–	75,600	–				
Li Ning Co Ltd	58,500	3,000	–				
Little Sheep Group Ltd	7,000	–	–				

# New ERA PRC Fund

## General Information

for the year ended 30 June 2009

<i>Manager</i>	First State Investments (Hong Kong) Limited 6th Floor, Three Exchange Square 8 Connaught Place Central Hong Kong
<i>Directors of the Manager</i>	Lindsay Robert Mann Lau Kwok Kit Martin Hu Ka Lam Ken (resigned on 9 December, 2008) Ma So Ping Joann (resigned on 24 April, 2009) Robert Keith James
<i>Trustee and Registrar</i>	HSBC Institutional Trust Services (Asia) Limited 1 Queen's Road Central Hong Kong
<i>Auditor</i>	PricewaterhouseCoopers 22nd Floor, Prince's Building Central Hong Kong
<i>Legal Advisor to the Manager</i>	Deacons Alexandra House 5th Floor 18 Charter Road Central Hong Kong

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