

NOTES TO THE FINANCIAL STATEMENTS

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 authorized 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. 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 markets of the People’s Republic of China (the “PRC”), which are available to foreign investors.

During 2002, PricewaterhouseCoopers resigned as auditors of the Fund and Ernst & Young were appointed to fill the vacancy so arising. There have been no other changes of auditors in the past three years.

2. IMPACT OF A NEW AND REVISED STATEMENT OF STANDARD ACCOUNTING PRACTICE (“SSAP”)

The following revised SSAP is effective for the first time for the current year’s financial statements

* SSAP 12 (Revised): “Income taxes”

This SSAP prescribes new accounting measurement and disclosure practices. The major effects on the Fund’s accounting policies and on the amounts disclosed in these financial statements of adopting this SSAP is summarized as follows:

SSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

The Fund is not expected to be subject to Hong Kong tax in respect of any of its authorized activities as described in note 4. Therefore, this revised SSAP has no significant impact on the Fund.

3 ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statements are set out below.

(a) Basis of preparation

These financial statements have been prepared in accordance with the provisions of the Trust Deed, the Code on Unit Trusts and Mutual Funds established by the Securities and Futures Commission of Hong Kong (the “Code”) and accounting principles generally accepted in Hong Kong. They have been prepared under the historical cost convention, modified to include the periodic revaluation of investments, as further explained below.

(b) Investments

Listed investments are stated at their fair values on the basis of their last traded prices on the principal stock exchange on which they are traded, on an individual basis.

Investment transactions are accounted for on a trade date basis. Unrealized gains and losses arising from changes in the fair values of investments are recognized in the statement of operations as they arise. Realized gains and losses on investments are calculated on the average cost basis and are dealt with in the statement of operations.