

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.

2. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards, herein collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2005. The Fund has not early adopted these new HKFRSs in the financial statements for the year ended 30 June 2005. The Fund has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

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 on the basis of accounting principles generally accepted in Hong Kong, the relevant disclosure provisions of the Trust Deed, and the relevant disclosure requirements set out in Appendix E to the Code on Unit Trusts and Mutual Funds established by the Securities and Futures Commission of 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. Except for the investments in Skyworth Digital Holdings Ltd. whose fair value is estimated by the Manager (see Note 5).

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.