

First State New Era PRC Fund

Semi-Annual Report

July 2017 - December 2017

First State New Era PRC Fund

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This semi-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 (Unaudited)**

Performance

	1 July 2017 to 31 Dec 2017	1 July 2016 to 31 Dec 2016
First State New Era PRC Fund Class II*	24.39%	6.21%
First State New Era PRC Fund Class III	24.67%	6.49%
Benchmark: MSCI China Free Index	23.50%	5.90%

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

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

Review

The MSCI China Index increased by 23.4% in US dollar terms over the six months to 31 December 2017. Policy measures from the People’s Bank of China (PBoC) helped to reduce capital outflows and provided support to the renminbi, which, against market expectations, continued to appreciate against the US dollar. Meanwhile, reforms in the state-owned enterprise (SOE) sector continued apace with the reorganization of several central SOEs and the introduction of mixed ownership plans. The China Securities Regulatory Commission (CSRC) said that it encouraged listed SOEs to improve the dividend pay-out and return excess capital to investors where there is an ability to do so. Midway through the year, MSCI said that it would include China A-shares in the MSCI Emerging Markets Index from June 2018 onwards, which provided further impetus for the market rally.

Performance

On portfolio holdings, Tencent rose to record highs as the firm announced strong net profits growth driven by a surge in mobile payments and cloud services, while China Taiping Insurance rallied on solid growth in premiums and lofty expectations on new product sales in 2018. AAC Technologies, one of Apple’s main suppliers of acoustic components (speaker boxes, receivers) and haptics (provides tactile feedback such as vibrations), also added to performance as it reported a jump in profits and strong sales growth.

Detracting from performance, Tong Ren Tang Technology weakened over the year as it announced a slowdown in profits. The company has a long history and a strong brand, but has struggled to achieve much growth. Meanwhile, China South Publishing was subject to tighter regulations on textbook sales in Hunan Province. Although the company has a commercial culture and a respectable track record, we believe ongoing regulatory changes are likely to constrain returns; we sold the position accordingly. Ctrip.com declined on concerns around greater competition in the online travel agency market.

First State New Era PRC Fund
Report of the Manager (Unaudited) (continued)

Portfolio changes

Significant purchases over the period included Wuxi Little Swan, a washing machine manufacturer majority-owned by Midea that has continued to gain market share domestically. Industry growth has been steady based on replacement demand; and ASPs have trended higher due to improved functionality and upgraded products. We also bought JNBY Design, the largest designer apparel retailer in China, on reasonable valuations. The company has been growing steadily and enjoys strong brand recognition and customer loyalty.

Other than China South Publishing, we divested Luthai Textile to fund higher conviction ideas elsewhere. A challenging environment for global retail meant that orders from Luthai's top three customers fell by around 10-20%, while the group's overall revenue declined by 3% over the year. We sold Pou Sheng on concerns around execution and the threat of e-commerce taking a greater share of retail sales in China.

Outlook

The 19th National Congress of the Communist Party took place in mid-October where, as expected, Xi Jinping was strengthened as China's leader and a number of the top leadership team were changed. We do not expect major changes in policy, simply a continuation of reforms to reduce over-supply, rebalance the economy and avoid a "hard landing".

There have been positive signs that supply-side reforms are taking hold. In the past two years, capacity closures in the coal and steel sectors have amounted to around 70-80% of the government's target, providing a catalyst for price increases and strong margin improvement for the remaining players. We expect further capacity closures to carry forward in 2018, which we believe should eventually pass through to general price levels.

Contrary to investor expectations, the renminbi had appreciated by around 6% against the US dollar by the end of 2017, reversing three years of depreciation. Despite the strength of China's currency and its stable balance of payments, we expect strict capital controls to remain in place in 2018. We expect the government to continue its efforts to stem the outflow of capital from the mainland and encourage more investment domestically.

The China equity market has risen significantly over the past year and there are clear signs of market exuberance. We believe investors are paying little attention to potential downside risks and as a result, valuations – particularly for quality companies – are not cheap. As such, we maintain our cautious outlook and continue to look for companies with a superior management team, a conservative balance sheet and good risk awareness.

First State New Era PRC Fund
Investment Portfolio (Unaudited)
as at 31 December 2017

	Holdings as at 31.12.2017	Market value US\$	% of net asset value
Listed investments – equities (100.23%)			
<i>Listed on the Stock Exchange of Hong Kong (78.84%)</i>			
AAC Technologies Holdings Inc Com	32,500	579,444	4.39
Aeon Stores (Hong Kong) Co Ltd	100,000	64,205	0.49
ASM Pacific Technology Ltd	24,800	345,418	2.62
China Bluechemical Ltd Shs - H	484,000	152,900	1.16
China Conch Venture Holdings Ltd	46,500	107,646	0.82
China Mengniu Dairy Co Ltd	112,000	333,048	2.52
China Merchants Bank Co Ltd - H	118,791	472,508	3.58
China Resources Beer Holdings Co Ltd	50,000	179,378	1.36
China Resources Gas Group Ltd	22,000	79,770	0.60
China Resources Land Ltd	96,137	282,803	2.14
China Resources Phoenix Healthcare Holdings Co Ltd	138,334	174,450	1.32
China Taiping Insurance Holdings Co Ltd	143,061	536,111	4.06
China Vanke Co Ltd - H	73,026	291,405	2.21
CSPC Pharmaceutical Group Ltd	280,000	565,107	4.28
ENN Energy Holdings Ltd	65,000	463,472	3.51
Fuyao Glass Industry Group Co Ltd - H	48,954	206,305	1.56
Gree Electric Appliances Inc of Zhuhai	45,891	307,752	2.33
Hangzhou Hikvision Digital Technology Co Ltd	23,700	141,842	1.07
JNBY Design Ltd	178,500	216,884	1.64
Luk Fook Holdings International Ltd	34,000	145,894	1.10
Luye Pharma Group Ltd	184,000	145,201	1.10
Midea Group Co Ltd	71,454	607,804	4.60
Minth Group Ltd	92,000	554,798	4.20
Shenzhen Inovance Technology Co Ltd	41,352	184,156	1.39
Shenzhou International Group	44,000	418,689	3.17
Sino Biopharmaceutical Ltd	146,000	258,810	1.96
Sun Art Retail Group Ltd	117,597	124,234	0.94
Techtronic Industries Co Ltd	48,500	316,047	2.39
Tencent Holdings Ltd	18,200	945,068	7.15
Tong Ren Tang Technologies Co Ltd - H	215,000	310,729	2.35
Towngas China Co Ltd	576,113	462,735	3.50
VITASOY International Holdings Ltd	60,000	153,478	1.16
Wasion Group Holdings Ltd	268,000	130,937	0.99
Xinyi Glass Holdings Co Ltd	120,000	156,241	1.18
		10,415,269	78.84

First State New Era PRC Fund
Investment Portfolio (Unaudited) (continued)
as at 31 December 2017

	Holdings as at 31.12.2017	Market value US\$	% of net asset value
Listed investments – equities (100.23%) (continued)			
<i>Listed on the Stock Exchange of New York, U.S.A.</i>			
<i>(3.25%)</i>			
Baidu Inc - ADR	1,041	243,813	1.85
Ctrip.Com International Ltd ADR	4,200	185,220	1.40
		429,033	3.25
<i>Listed on the Stock Exchange of Shanghai</i>			
<i>(11.31%)</i>			
Foshan Haitian Flay & Food Co Ltd	22,899	189,056	1.43
Hongfa Technology Co Ltd A	20,800	132,051	1.00
Jiangsu Hengrui Medicine Co Ltd	16,791	177,743	1.35
Qingdao Haier Co Ltd	86,320	249,565	1.89
Shanghai International Airport Co Ltd	34,698	239,666	1.81
Wuxi Little Swan Co Ltd B	59,700	338,560	2.56
Zhejiang Chint Electrics Co Ltd	20,000	80,259	0.61
Zhengzhou Yutong Bus Co Ltd	23,588	87,128	0.66
		1,494,028	11.31
<i>Listed on the Stock Exchange of Shenzhen, People's Republic of China (2.14%)</i>			
China National Accord Medicines Co Ltd - B	57,700	282,644	2.14
		282,644	2.14
<i>Listed on the Stock Exchange of Taiwan (2.89%)</i>			
Advantech Co Ltd	18,699	132,615	1.00
Delta Electronics Inc	51,518	249,076	1.89
		381,691	2.89
<i>Listed on the Stock Exchange of Tokyo, Japan</i>			
<i>(1.80%)</i>			
SoftBank Group Corp	3,000	237,445	1.80
		237,445	1.80

First State New Era PRC Fund
Investment Portfolio (Unaudited) (continued)
as at 31 December 2017

	Market value US\$	% of net asset value
Listed investments – equities (100.23%) (continued)		
Total listed investments – equities	13,240,110	100.23
Other net assets	(30,116)	(0.23)
Net assets as at 31 December 2017	<u>13,209,994</u>	<u>100.00</u>
Total listed investments, at historical cost	<u>8,305,431</u>	

First State New Era PRC Fund
Statement of Movements in Portfolio Holdings (Unaudited)
for the period ended 31 December 2017

Listed investments	Portfolio holdings		Bonus/ Split
	Additions	Disposals	
Equities			
<i>Listed on the Stock Exchange of Hong Kong</i>			
AAC Technologies Holdings Inc Com	-	13,000	-
Aeon Stores (Hong Kong) Co Ltd	-	22,500	-
ASM Pacific Technology Ltd	2,500	6,600	-
China Bluechemical Ltd Shs - H	-	110,000	-
China Conch Venture Holdings Ltd	46,500	-	-
China Literature Ltd	1,324	1,324	-
China Mengniu Dairy Co Ltd	2,000	50,000	-
China Merchants Bank Co Ltd - H	-	27,000	-
China Oilfield Services Ltd	-	112,000	-
China Resources Beer Holdings Co Ltd	14,000	10,000	-
China Resources Gas Group Ltd	12,000	10,000	-
China Resources Land Ltd	16,000	22,000	-
China Resources Phoenix Healthcare Holdings Co Ltd	7,500	31,000	-
China Resources Power Holdings Co Ltd	-	37,965	-
China Taiping Insurance Holdings Co Ltd	-	51,000	-
China Vanke Co Ltd - H	41,700	16,600	-
CSPC Pharmaceutical Group Ltd	-	112,000	-
ENN Energy Holdings Ltd	6,000	13,000	-
Fuyao Glass Industry Group Co Ltd - H	2,154	23,600	-
Global Brands Group Holdings Ltd	-	904,000	-
Gree Electric Appliances Inc of Zhuhai	-	10,400	-
Hang Lung Group Ltd	-	15,000	-
Hangzhou Hikvision Digital Technology Co Ltd	-	5,400	-
JNBY Design Ltd	214,500	36,000	-
Kingenta Ecological Engineering Group Co Ltd - A	-	58,800	-
Luk Fook Holdings International Ltd	34,000	-	-
Luye Pharma Group Ltd	49,000	42,000	-
Midea Group Co Ltd	4,400	16,200	-
Minth Group Ltd	-	32,000	-
Pacific Textiles Holdings Ltd	-	74,000	-
Pou Sheng International (Holdings) Ltd	-	732,000	-
Shenzhen Inovance Technology Co Ltd	-	15,100	-
Shenzhou International Group	-	16,000	-
Sino Biopharmaceutical Ltd	-	100,000	-
Sun Art Retail Group Ltd	-	37,500	-
Techtronic Industries Co Ltd	-	11,000	-
Tencent Holdings Ltd	-	4,700	-
Tong Ren Tang Technologies Co Ltd - H	-	100,000	-
Towngas China Co Ltd	-	150,000	-
Truly International Holdings Ltd	300,000	300,000	-
VITASOY International Holdings Ltd	-	30,000	-
Wasion Group Holdings Ltd	92,000	110,000	-
Xinyi Glass Holdings Co Ltd	134,000	14,000	-

First State New Era PRC Fund
Statement of Movements in Portfolio Holdings (Unaudited)
for the period ended 31 December 2017

Listed investments (continued)	Portfolio holdings		Bonus/ Split
	Additions	Disposals	
Equities			
<i>Listed on the Stock Exchange of New York, U.S.A.</i>			
Baidu Inc - ADR	83	733	-
Ctrip.Com International Ltd ADR	2,800	900	-
Vipshop Holdings Ltd ADR	-	11,500	-
<i>Listed on the Stock Exchange of Shanghai</i>			
China South Publishing & Media Group Co Ltd	-	82,598	-
Foshan Haitian Flay & Food Co Ltd	-	7,500	-
Hongfa Technology Co Ltd A	20,800	-	-
Jiangsu Hengrui Medicine Co Ltd	-	8,900	-
Qingdao Haier Co Ltd	27,500	19,600	-
Shanghai International Airport Co Ltd	7,898	7,200	-
Wuxi Little Swan Co Ltd B	59,700	-	-
Zhejiang Chint Electrics Co Ltd	24,500	4,500	-
Zhengzhou Yutong Bus Co Ltd	-	17,200	-
<i>Listed on the Stock Exchange of Shenzhen, People's Republic of China</i>			
China National Accord Medicines Co Ltd - B	5,700	-	-
Luthai Textile Co Ltd - B	-	143,550	-
<i>Listed on the Stock Exchange of Taiwan</i>			
Delta Electronics Inc	-	18,000	-
<i>Listed on the Stock Exchange of Tokyo, Japan</i>			
SoftBank Group Corp	-	600	-
Rights			
Tencent - Pref Offer 2017 Nil Paid RTS 31/12/2049	-	18	18

First State New Era PRC Fund
Statement of Net Assets (Unaudited)
as at 31 December 2017

	(Unaudited) 31 December 2017 US\$	(Audited) 30 June 2017 US\$
Assets		
Non-current assets		
Formation cost	10,123	12,116
	-----	-----
Current assets		
Investments	13,240,110	13,016,836
Dividend receivable	-	44,292
Amounts receivable from brokers	-	50,545
Cash at banks	81,364	68,702
	-----	-----
	13,321,474	13,180,375
	-----	-----
Total assets	13,331,597	13,192,491
	-----	-----
Liabilities		
Current liabilities		
Derivative financial instruments	-	12
Amounts payable on redemption	53,131	69,721
Accounts payable and accrued expenses	68,472	68,142
	-----	-----
Total liabilities (excluding net assets attributable to unitholders)	121,603	137,875
	-----	-----
Net assets attributable to unitholders	13,209,994	13,054,616
	=====	=====
Number of units in issue		
- Class II (USD)	42,806.70	45,158.78
- Class III (USD)	585,300.89	791,686.42
	-----	-----
	585,300.89	791,686.42
	-----	-----
Net assets attributable to unitholders per unit		
- Class II (USD)	126.22	101.48
- Class III (USD)	13.34	10.70
	-----	-----
	13.34	10.70
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First State New Era PRC Fund
General Information
For the period ended 31 December 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.