

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. ACCOUNTING POLICIE (CONTINUED)

(c) Revenue recognition

Revenue is recognized when it is probable that the economic benefits will flow to the Fund and when the revenue can be measured reliably, on the following bases:

- (i) interest on bank deposits is recognized on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and
- (ii) dividend income is recognized when the Fund's right to receive payment has been established, which is taken as being the date on which equities are quoted as ex-dividend.

(d) Expenses

All expenses are accounted for on an accruals basis.

(e) Translation of foreign currencies

All monetary assets and liabilities expressed in currencies other than the United States dollars at the balance sheet date are translated into United States dollars at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies during the year are translated into United States dollars at the rates of exchange ruling at the transaction dates. Foreign exchange differences are dealt with in the statement of operations.

(f) Borrowing costs

All borrowing costs are charged to the statement of operations in the period in which they are incurred.

(g) Cash and cash equivalents

For the purpose of cash flow statement, cash and cash equivalents comprise bank balances.

(h) Distribution

The Manager does not intend to declare any dividends for the Fund. Income earned by the Fund will be reinvested in the Fund and reflected in the value of its units.

(i) Proceeds and payments on issue and redemption of units

The net asset values of the Fund are computed in accordance with its explanatory memorandum and the Trust Deed. Prices for issues and redemptions of units are based on the latest available preceding valuation.

Proceeds and payments for units issued and redeemed are shown as movements in the statement of movements in the capital account.

(j) Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

4 TAXATION

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

5 INVESTMENTS

The investments comprise equity securities listed on the stock exchanges of Hong Kong, Shanghai and Shenzhen and have an original cost of US\$16,435,227 (2003: US\$17,765,315). A detailed portfolio listing is set out on page 4 and 5.