

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. ACCOUNTING POLICIES

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

(a) Investments and other financial assets

Applicable to the year ended 30 June 2005:

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.

Applicable to the year ended 30 June 2006:

Financial assets in the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss, or loans and receivables, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Fund determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognized on the trade date i.e., the date that the Fund commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category “financial assets at fair value through profit or loss”. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on investments held for trading are recognized in the statement of operations.

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

All investments are measured initially at fair value, with transaction costs for such instruments being recognized in the statement of operations.

Fair value

The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest method where appropriate. Gains and losses are recognized in the statement of operations when the loans and receivables are derecognized or impaired.