Notes to the Financial Statements (continued)

15. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Fund's principal financial instruments comprise investments at fair value through profit or loss. The main purpose of these financial instruments is to achieve the investment objective of the Fund, i.e., to provide investors with capital growth over the medium to long term by investing in listed shares in Hong Kong, China, and other financial markets. The Fund has other financial assets and liabilities such as cash at bank, bank overdraft, and due from/to brokers, which arise directly from its operations.

The main risks associated with the financial instruments, assets and liabilities of the Fund are set out below:

(a) Market risk

Market risk is the risk that the value of financial assets will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual assets or factors affecting all assets in the market.

The Fund is exposed to market risk on all of its investments listed in major stock exchanges. It is the policy of the Manager to maintain a diversified portfolio of investments for the Fund as to manage market risk. The investment positions held by the Fund as at 30 June 2006 are disclosed in the Investment Portfolio.

(b) Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in raising funds to meet commitments associated with financial assets and liabilities. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value.

The Manager considers the Fund's listed investments to be readily realizable as they are listed on major stock exchanges with reasonable levels of trading.

The Manager may, with the consent of the Trustee, borrow up to 25% of the net asset value of the Fund to meet realization needs and expenses which arise directly from its operations.

(c) Credit risk

(i) the risk that the debt issuer or deposit-taking financial institution will default on its obligations and

(ii) the risk that the debt's value will decline because either its credit ratings by rating agencies are downgraded or the ability and willingness of the debt issuer or deposit-taking financial institution to service its debt obligations deteriorate.

The Manager considers the Fund's exposure to credit risk as at 30 June 2006 is minimal.

(d) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument and future cash flows will fluctuate due to changes in market interest rates.

The equity assets of the Fund are sensitive to interest rates, which also drive the economies. Interest rates determine the cost of equity, and affect earnings as well. Equity prices tend to fall when interest rates rise. The Manager does not manage interest rate risk in equity assets on an active basis.