

# International Accounting Standards

## Illustrative Fund Financial Statements



PricewaterhouseCoopers ([www.pwcglobal.com](http://www.pwcglobal.com)), is the world's largest professional services organisation. Drawing on the knowledge and skills of 150,000 people in 150 countries, we help our clients solve complex business problems and measurably enhance their ability to build value, manage risk and improve performance. PricewaterhouseCoopers refers to the member firms of the worldwide PricewaterhouseCoopers organisation.

## Other publications on IAS

The following publications on International Accounting Standards and corporate governance practices have been published by PricewaterhouseCoopers and are available from your nearest PricewaterhouseCoopers office:

International Accounting Standards – A Pocket Guide  
International Accounting Standards – Disclosure Checklist – 2001  
International Accounting Standards – Illustrative Corporate Financial Statements – 2001  
International Accounting Standards – Illustrative Bank Financial Statements – 2001  
International Accounting Standards – Understanding IAS 29  
International Accounting Standards – Understanding IAS 39  
International Accounting – Similarities & Differences – IAS, US GAAP and UK GAAP  
The Board Agenda – Good Practices for Meeting Market Expectations

and on wider aspects of international reporting:

Audit Committees – Good Practices for Meeting Market Expectations  
Reporting Progress – Good Practices for Meeting Market Expectations  
World Watch (newsletter) – Governance and Corporate Reporting  
The Board Agenda – Good Practices for Meeting Market Expectations

You can find latest news, discussions and publications on our website at <http://www.pwcglobal.com/corporate-reporting>

## **International Accounting Standards Illustrative Fund Financial Statements Year ended 31 December 2001**

This publication by PricewaterhouseCoopers provides two illustrative set of financial statements, prepared in accordance with International Accounting Standards, for an open ended fund and secondly for a closed ended fund. These financial statements include the disclosures required by International Accounting Standards and Interpretations published up to and including March 2001. The example disclosures in these illustrative financial statements should not be considered to be the only acceptable form of presentation. The form and content of the Company's financial statements are the responsibility of the fund manager, and other forms of presentation which are equally acceptable may be preferred and adopted, provided they include the specific disclosures prescribed in International Accounting Standards.

These illustrative financial statements are not a substitute for reading the Standards themselves or for professional judgement as to fairness of presentation. They do not cover all possible disclosures required by International Accounting Standards nor do they take account of any specific legal framework. Depending on the circumstances, further specific information may be required in order to ensure fair presentation under International Accounting Standards and we recommend that reference is made to our separate publication 'International Accounting Standards – Disclosure Checklist 2001'. Additional accounting policies and disclosures may be required in order to comply with local laws, accounting standards and stock exchange regulations.

### **Format of IAS illustrative financial statements**

The references in the left margin of the financial statements represent the paragraph of the Standards in which the disclosure requirements appear – for example, '39p8' indicates IAS 39 paragraph 8. The designation 'DV' means 'Disclosure voluntary' and indicates that the relevant IAS encourages, but does not require the disclosure. Additional notes and explanations are shown italics. The financial statements also include disclosures that are general practice in the industry.

### **Structure of publication**

	<b>Page</b>
<b>Operating and financial review – general</b>	<b>2</b>
<b>Open ended fund</b>	
General information	4
Index to the illustrative open ended fund financial statements	5
Income statement	6
Balance sheet	7
Statement of changes in shareholders' equity	8
Cash flow statement	9
Notes to the financial statements	10
Report of the auditors	22
<b>Closed ended fund</b>	
General information	23
Index to the illustrative closed ended fund financial statements	24
Income statement	25
Balance sheet	26
Statement of changes in shareholders' equity	27
Cash flow statement	28
Notes to the financial statements	29
Report of the auditors	37

## Operating and financial review – general

DV,1p8  
DV,1p9

*International Accounting Standards do not address the requirements for information to be included in a directors' report or financial commentary. Generally such requirements are determined by local laws and regulations. IAS 1 encourages, but does not require, companies to present, outside the financial statements, a financial review by management which describes and explains the main features of the enterprise's financial performance and financial position and the principal uncertainties it faces.*

*In 1998 the International Organisation of Securities Commissions issued "International Disclosure Standards for Cross-Border Offerings and Initial Listings for Foreign Issuers", comprising recommended disclosure standards including an operating and financial review and discussion of future prospects. IOSCO standards for prospectuses are not mandatory – but they will increasingly be incorporated in national stock exchange requirements both for prospectuses and annual reports. The text of IOSCO's Standard on Operating and Financial Reviews and Prospects is reproduced below :*

*“Discuss the company's financial condition, changes in financial and market conditions and results of operations for each year and interim period for which financial statements are required, including the causes of material changes from year to year in financial statement line items, to the extent necessary for an understanding of the company's business as a whole. Information provided also shall relate to all separate segments of the company. Provide the information specified below as well as such other information that is necessary for an investor's understanding of the company's financial condition, changes in financial condition and results of operation.*

- A. Operating Results** Provide information regarding significant factors, including unusual or infrequent events or new developments, materially affecting the company's income from operations, indicating the extent to which income was so affected. Describe any other significant component of revenue or expenses necessary to understand the company's results of operations.
1. To the extent that the financial statements disclose material changes in net sales or revenues, provide a narrative discussion of the extent to which such changes are attributable to changes in prices or to changes in the volume or amount of products being sold or to the introduction of new products or services.
  2. Describe the impact of inflation, if material. If the currency in which financial statements are presented is of a country that has experienced hyperinflation, the existence of such inflation, a five year history of the annual rate of inflation and a discussion of the impact of hyperinflation on the company's business shall be disclosed.
  3. Provide information regarding the impact of foreign currency fluctuations on the company, if material, and the extent to which foreign currency net investments are hedged by currency borrowings and other hedging instruments.
  4. Provide information regarding any governmental economic, fiscal, monetary or political policies or factors that have materially affected, or could materially affect, directly or indirectly, the company's operations or investments by host country shareholders.

## Operating and financial review – general (continued)

- B. Liquidity and Capital Resources.** The following information shall be provided:
1. Information regarding the company's liquidity (both short and long term), including:
    - (a) a description of the internal and external sources of liquidity and a brief discussion of any material unused sources of liquidity. Include a statement by the company that, in its opinion, the working capital is sufficient for the company's present requirements, or, if not, how it proposes to provide the additional working capital needed.
    - (b) an evaluation of the sources and amounts of the company's cash flows, including the nature and extent of any legal or economic restrictions on the ability of the company to receive or pay cash dividends, loans or advances and the impact such restrictions have had or are expected to have on the ability of the company to meet its cash obligations.
    - (c) information on the level of borrowings at the end of the period under review, the seasonality of borrowing requirements and the maturity profile of borrowings and committed borrowing facilities, with a description of any restrictions on their use.
  2. Information regarding the type of financial instruments used, currency and interest rate structure. The discussion also should include information on the currencies in which cash and cash equivalents are held, and the use of financial instruments for hedging purposes.
- D. Trend Information.** The company should identify the most significant recent trends in underlying investments, economic growth of territories in which it invests inflation and bid prices since the latest financial year. The company should also discuss, for at least the current financial year, any known trends, uncertainties, demands, or events that are reasonably likely to have a material effect on the company's performance, or that would cause reported financial information not necessarily to be indicative of future operating results or financial condition.

## General information

- 1p102(b)** ABC Fund (“the Fund”) is an open ended investment company registered with limited liability in *[name of territory under jurisdiction]* on *[date]* under the provisions of the *[name of the relevant legislation in the territory under jurisdiction]*
- 1p102(a)** The Fund’s shares are listed on the *[name of city]* stock exchange. The address of the Fund’s registered office is as follows: *[address of registered office]*
- 1p102(d)** The Fund has no employees.
- 10p16** The Fund’s financial statements were authorised for issue on *[the date]* by *[the name of the body that gave the authorisation]*.
- 1p102(b)** The principal activity of the Fund is investment holding with an objective to achieve capital growth by providing exposure to the S&P 500 share index whilst providing protection against capital losses for a proportion of capital invested in the Fund.

<b>Index to the illustrative open ended fund financial statements</b>	<b>Page</b>
Income statement	6
Balance sheet	7
Statement of changes in shareholders' equity	8
Cash flow statement	9
Notes to the financial statements	
1 Accounting policies	10
A Basis of preparation	
B Foreign currency translation	
C Derivatives financial instruments	
D Offsetting financial instruments	
E Interest income	
F Sales and repurchase arrangements	
G Available-for-sale and trading securities	
H Cash and cash equivalents	
I Taxation and deferred tax	
J Share capital	
K Dividends payable	
L Net asset value per share and earnings per share	
M Expenses	
2 Use of financial instruments	13
3 Interest income	17
4 Net gain on available-for-sale and trading securities excluding interest income	17
5 Related parties	17
6 Taxation and deferred taxation	18
7 Net assets value per share and earnings per share	18
8 Margin accounts	18
9 Due from/to brokers	18
10 Derivative financial instruments	19
11 Available-for-sale securities	20
12 Trading securities and other repurchase arrangements	20
13 Accrued expenses	20
14 Share capital	21
15 Dividends payable	21
16 Post balance sheet events	21

## Income statement

1p75,77	<i>(all amounts in USD thousands)</i>	Notes	<u>Year ended 31 December</u>	
			2001	2000
<b>1p75</b>	<b>Revenue</b>			
<b>39p170(c)</b>	Interest income	3	46,651	48,816
	Dividend income		11,881	18,163
	Net gain on available-for-sale and trading securities	4	<u>47,941</u>	<u>224,892</u>
	<b>Total investment income</b>		106,473	291,871
<b>1p77</b>	<b>Expenditure</b>			
	Management fee	5	12,594	14,043
	Custodian fee	5	3,401	3,741
	Auditors fee		24	23
	Directors fees	5	87	83
<b>39p170(c)</b>	Interest expense		550	600
	Other operating expenses		<u>2,057</u>	<u>4,239</u>
	<b>Operating expenditure</b>		<u>18,713</u>	<u>22,729</u>
<b>1p75(f)</b>	<b>Profit from ordinary activities before tax</b>		87,760	269,142
<b>1p75(e)</b>	Tax	6	<u>(3,564)</u>	<u>(5,449)</u>
<b>1p75(l)</b>	<b>Net profit on ordinary activities</b>		<u>84,196</u>	<u>263,693</u>
<b>33p47</b>	Earnings per share	7	<u>3.87</u>	<u>8.34</u>

## Balance sheet

		Notes	As at 31 December	
			2001	2000
1p66,67	(all amounts in USD thousands)			
1p53				
1p66	<b>ASSETS</b>			
	Cash and bank balances		285,040	324,565
	Margin accounts	8	125,924	221,577
	Due from brokers	9	56,056	83,655
	Derivative financial instruments	10	219,267	265,700
	Available-for-sale securities	11	519,656	816,587
	Trading securities	12	34,690	30,990
	Interest receivable		4,789	5,273
	<b>Total assets</b>		<u>1,245,422</u>	<u>1,748,347</u>
1p66	<b>LIABILITIES</b>			
	Due to brokers	9	75,719	17,944
	Derivative financial instruments	10	108,317	87,750
	Due under repurchase arrangements	12	21,939	22,041
	Accrued expenses	13	1,085	2,189
	<b>Total liabilities</b>		<u>207,060</u>	<u>129,924</u>
	<b>Total assets less liabilities</b>		<u>1,038,362</u>	<u>1,618,423</u>
1p66(m)	<b>ISSUED CAPITAL AND RESERVES</b>			
	Share capital	14	962	1,556
	Share premium	14	238,801	231,151
	Retained earnings		798,599	1,385,716
	<b>Total shareholders' funds</b>		<u>1,038,362</u>	<u>1,618,423</u>
	Adjusted net asset value per share	7	<u>54.54</u>	<u>52.31</u>

## Statement of changes in shareholders' equity

1p86	(all amounts in USD thousands)	Notes	Share Capital	Share Premium	Retained Earnings	Total
1p86(e-f)	Balance at 1 January 2000	14	1,453	69,132	1,221,924	1,292,509
1p86(a)	Net profit on ordinary activities		–	–	263,693	263,693
1p86(d)	Redemption of shares	14	(75)	(4,602)	(61,100)	(65,777)
1p86(d)	Dividends paid	15	–	–	(38,801)	(38,801)
1p86(d)	Issue of shares	14	178	166,621	–	166,799
	Balance at 31 December 2000	14	1,556	231,151	1,385,716	1,618,423
	Balance at 1 January 2001					
	– as previously stated		1,556	231,151	1,385,716	1,618,423
39p172(d)	Effect of adopting IAS 39	7	–	–	9,850	9,850
	Balance at 1 January 2001 as restated		1,556	231,151	1,395,566	1,628,273
1p86(a)	Net profit on ordinary activities		–	–	84,196	84,196
1p86(d)	Redemption of shares	14	(636)	(39,025)	(644,908)	(684,569)
1p86(d)	Dividends paid	15	–	–	(36,255)	(36,255)
1p86(d)	Issue of shares	14	42	46,675	–	46,717
	Balance at 31 December 2001		962	238,801	798,599	1,038,362

*[In the prior year all available-for-sale securities were considered as current investments that by their nature were readily realisable and were intended to be held for not more than one year. Therefore, all gains and losses on available-for-sale securities prior to adoption of IAS 39 were taken to income statement. However, if ABC Fund had considered available-for-sale securities as long-term investments then ABC Fund would have a revaluation reserve on the balance sheet due to the revaluation of such investment securities. Such a revaluation reserve would need to be transferred to retained earnings on the date when IAS 39 is initially adopted, in accordance with the transitional rules of IAS 39.]*

## Cash flow statement

7p10	<i>(all amounts in USD thousands.)</i>	Notes	Year ended 31 December	
			2001	2000
7p18(b)	<b>Net profit on ordinary activities</b>		84,196	263,693
	Adjustment for:			
	Interest income		(46,651)	(48,816)
	Interest expense		550	600
	Dividend income		(11,881)	(18,163)
	Tax		3,564	5,449
7p20(c)	Net gain on available-for-sale and trading securities	4	(47,941)	(224,892)
7p14	Operating profit before working capital changes		(18,163)	(22,129)
	Net decrease/(increase) in margin accounts	8	95,653	(167,382)
	Net decrease/(increase) in due to/from brokers	9	85,374	(65,711)
	Net decrease/(increase) in derivative financial instruments (assets)	10	46,433	(265,700)
	Net increase in trading securities	12	(3,700)	(30,990)
	Net decrease in interest receivable		484	1,133
	Net increase in derivative financial instruments (liabilities)	10	20,567	87,750
	Net (decrease)increase in due under repurchase arrangements	12	(102)	22,041
	Net (decrease)/increase in accrued expenses	13	(1,104)	350
	Cash generated from operations		225,442	(440,638)
7p31	Interest paid		(550)	(600)
7p35	Taxes paid	6	(3,564)	(5,449)
7p31	Interest received		46,651	48,816
7p31	Dividend received		11,881	18,163
	Net cash from/(used in) operating activities		279,860	(379,708)
7p21	<b>Cash flows from investing activities</b>			
7p16(c)	Purchases of available-for-sale securities	11	(299,739)	(226,050)
7p16(d)	Proceeds from sale of available-for-sale securities	11	654,461	562,450
	Net cash from investing activities		354,722	336,400
7p21	<b>Cash flows from financing activities</b>			
7p17(a)	Issue of ordinary shares	14	46,717	166,799
7p17(a)	Redemption of shares	14	(684,569)	(65,777)
7p34	Dividend paid	15	(36,255)	(38,801)
	Net cash (used in)/from financing activities		(674,107)	62,221
	<b>Net (decrease)/increase in cash and cash equivalents</b>		(39,525)	18,913
	Cash and cash equivalents at beginning of year		324,565	305,652
	<b>Cash and cash equivalents at end of year</b>		285,040	324,565

## 1 Accounting policies

1p91(a) The principal accounting policies adopted in the preparation of these financial statements are set  
1p97(b) out below:

### A Basis of presentation

1p11 The financial statements are prepared in accordance with International Accounting Standards.  
1p97(a) The financial statements are prepared under the historical cost convention as modified by the fair valuation of available-for-sale securities, financial assets and financial liabilities held for trading and all derivative contracts.

21p43 The measurement currency of the Fund is USD and not *[insert the name of the local currency]* reflecting the fact that the ordinary shares of the Fund are denominated in USD currency and the Fund invests principally in USD denominated assets.

### B Foreign currency translation

1p99(p) Monetary assets and liabilities denominated in foreign currencies are translated into USD at exchange rates in effect at the date of the financial statements. Realised and unrealised gains and losses on foreign currency transactions are charged or credited to the income statement as foreign currency gain and losses except where they relate to equity investments where such amounts are included within realised and unrealised gains and losses on investments. The cost of investments, and income and expenses are translated into USD based on exchange rates on the date of the transaction.

### C Derivative financial instruments

32p47(b) Derivative financial instruments including foreign exchange contracts, stockmarket indexes and  
32p52 interest rate futures, forward rate agreements, currency and interest rate swaps, currency and  
32p54 interest rate options (both written and purchased) and other derivative financial instruments are  
1p99(l) initially recognised in the balance sheet at cost and subsequently are remeasured at their fair  
32p52 value. Fair values are obtained from quoted market prices, discounted cash flow models and  
39p1(i) option pricing models as appropriate. All derivatives are carried in assets when amounts are  
receivable by the Fund and in liabilities when amounts are payable by the Fund.

39p103(a) Changes in fair values of derivatives are included in the income statement.

### D Offsetting financial instruments

32p33 Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

### E Interest income

1p99(a) Interest income is recognised in the income statement for all interest bearing instruments on an  
18p35(a) accrual basis using the effective yield method. Interest income includes coupons earned on fixed income investment and trading securities and accrued discount on treasury bonds, commercial papers, floating rate notes and other discounted instruments.

### F Sale and repurchase agreements

32p33 Securities sold subject to a linked repurchase agreements ('repos') are retained in the financial  
39p35,38 statements as trading or available-for-sale securities depending on the purpose of their original  
1p99(i) acquisition and the counterparty liability is included in liabilities as under repurchase  
39p170(d) agreements.

## 1 Accounting policies (continued)

- 39p170(d) Securities purchased under agreements to resell ('reverse repos') are recorded as loans and advances to counterparties and included in due from counterparties. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

### G Available-for-sale and trading securities

- 39p10  
39p68  
1p99(i) At 1 January 2001 the Fund adopted IAS 39 and classified its investment securities into the following two categories: trading and available-for-sale. Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices are classified as available-for-sale. All other investments are classified as trading. Management determines the appropriate classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis.
- 39p66 All investment securities are initially recognised at cost (which includes transaction costs). Available-for-sale assets are subsequently re-measured at fair value based on quoted bid prices or discounted cash flow models. Fair values for unquoted equity instruments are estimated using applicable price/earnings ratios refined to reflect the specific circumstances of the issuer. Gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognised in the income statement as they arise. Prior to the adoption of IAS 39 certain investment securities were carried at mid market prices.
- 39p70, 102  
39p167(b)
- 39p103(b) *[Note – the Fund could adopt the alternative policy under IAS 39 under which gains and losses arising from changes in the fair value of available-for-sale securities are recognised in equity. When the securities are disposed of or once they are impaired, the related accumulated fair value adjustments are included in the income statement as gains less losses from investment securities]*
- 39p83  
39p87 *[Note – the Fund is unlikely to classify any financial asset as held-to-maturity as calls for redemption of shares could frustrate the Fund's intention to hold the securities to maturity].*
- 39p10  
39p68  
39p66  
1p99(i)  
18p35(b) Trading securities are securities, which were either acquired for generating a profit from short-term fluctuations in price or dealer's margin or included in a portfolio in which a pattern of short-term profit taking exists. Trading securities are initially recognised at cost (which includes transaction costs) and subsequently re-measured at fair value based on quoted bid prices or discounted cash flow models. All related realised and unrealised gains and losses are included in income statement as they arise.
- 39p172 (d) The effect of adopting IAS 39 at 1 January 2001 on equity is shown in the statement of changes in shareholders equity and represents the impact on changing from mid market to market bid prices for certain assets.
- 18p35 (b) Interest earned whilst holding investment and trading securities is reported as interest income. Dividends are recognised when the Fund's right to receive payment is established. Dividends received are included separately in dividend income.
- 39p27  
39p30  
39p167(c) All purchases and sales of investments and trading securities that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recognised at trade date, which is the date on which the Fund commits to purchase or sell the asset. In cases which are not within the time frame established by regulation or market convention, such transactions are recognised on settlement date. Any change in fair value of the asset to be received is recognised between the trade date and settlement date.

## 1 Accounting policies (continued)

### H Cash and cash equivalents

7p46  
1p99(r) Cash comprises cash on hand and demand deposits. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant changes in value.

### I Taxation

1p99(m) The Fund is domiciled in *[insert the name of the domicile]* which is an Offshore jurisdiction and is exempt from paying income or capital gains tax of that jurisdiction. The Fund pays an exempt company fee charged at a rate of LC *[insert the amount in LC]* per annum.

The Fund currently incurs withholding tax imposed by certain countries on investment income recorded gross of withholding tax in the income statement.

*In limited events, a fund may be subject to capital gains tax in which case the following policy may be applied:*

*The Fund also incurs capital gains tax imposed on holders of securities by certain countries. Capital gains are recorded gross of such taxes in the income statement.*

*Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.*

12p58 Deferred tax related to fair value remeasurement of derivatives, available-for-sale and trading securities is charged to the income statement.

### J Share capital

32p18 The Fund's ordinary shares with discretionary dividends are classified as equity.

On the issue of preference shares, the net issue proceeds are credited to share capital (par value) and the balance to share premium.

On redemption of preference shares, the cost of the redemption is charged in part to the share capital account (par value), share premium account (the amount initially credited on issue) and the balance to other reserves.

*[In certain territories the full amount of any redemption may be charged to share premium when permitted or allowed by legislation]*

### K Dividends payable

10p11  
32p30 Proposed dividends are accounted for when they are ratified by the Annual General Meeting. Once ratified, dividends declared are then recognised in equity in the period in which they are declared.

### L Net asset value per share and earnings per share

1p101 The net asset value per share is calculated by dividing the net assets included in the balance sheet remeasured at mid market prices by only the number of preference shares in issue at the year end because ordinary shares are not redeemable.

33p10 Earnings per share is calculated by dividing the net profit attributable to the shareholders by the weighted average number of preference shares outstanding during the period. Ordinary share holders are not entitled to participate in dividends.

## 1 Accounting policies (continued)

### M Expenses

1p77 Expenses are accounted for on accrual basis. Expenses are charged to the income statement except for expenses incurred on the acquisition of an investment which are included within the cost of that investment. Expenses arising on the disposal of investments are deducted from the disposal proceeds.

1p46(d,e) (In the notes all amounts are shown in USD thousands unless otherwise stated)

## 2 Use of financial instruments

The objective of the Fund is to achieve capital growth through investing in a selection of companies included in the S&P 500 index and S&P 500 options and futures and in USD denominated interest rates securities and related derivatives.

32p43 The Fund is exposed to market price risk, interest rate risk, credit risk, liquidity risk and currency risk arising from the financial instruments it holds. The risk management policies employed by the Fund to manage these risks are discussed below.

### 32p43a(iii) A Market price risk

The Fund's interest rate securities, equity securities and trading derivative financial instruments are susceptible to market price risk arising from uncertainties about future prices of the instruments.

The Fund's market price risk is managed through diversification of the investment portfolio ratios by exposures. 80-120% of the net assets is invested in US equities and related derivatives, of which 20-40% is in individual equities and the balance through traded options and futures. The Fund invests 40-60 % of the net assets in interest rate securities. The equity securities are selected from S&P 500 index and the options and futures are New York stock exchange traded. The interest rate securities are listed and AA rated. At 31 December 2001, the overall on balance sheet market exposures were as follows:

#### Schedule of investment securities as at 31 December 2001

	Fair value	% of Total Net Assets
<b>Debt securities held for trading</b>		
AQR Corporation 6.5% 16/02/2002	21,939	2.11
<b>Debt securities available-for-sale</b>		
PQR Finance FRN 8/8/2002	52,730	5.08
FEG Bank FRN 24/04/2002	102,500	9.88
ABE Corporation 6.0% 28/05/2007	50,650	4.87
ABF Corporation 5.9% 21/3/2003	52,100	5.02
Debt securities available-for-sale	257,980	24.85
Total debt securities	279,919	26.96
<b>Equity securities held for trading</b>		
300 Shares of [name of the entity]	12,751	1.23

## 2 Use of financial instruments (continued)

### A Market price risk

S&P 500 equity securities available-for-sale		
2,000 Shares of [name of the entity]	63,850	6.16
1,500 Shares of [name of the entity]	55,760	5.37
2,300 Shares of [name of the entity]	98,575	9.49
1,200 Shares of [name of the entity]	<u>43,491</u>	<u>4.18</u>
S&P 500 equity securities available-for-sale	<u>261,676</u>	<u>25.20</u>
Debt and Equity based futures and options (net)	<u>110,950</u>	<u>10.68</u>
Total investment securities	<u>665,296</u>	<u>64.07</u>

The Fund's overall market positions are monitored on a daily basis by the Fund's manager and reviewed on a quarterly basis by the board of directors.

Further details and comparative amounts for derivative financial instruments and investment securities are presented in notes 10 and 11 respectively, of these financial statements.

At the balance sheet date, the Fund was exposed to equities within the S&P 500 index as follows:

#### Gross equity market positions

	Contract or notional amount 2001	Contract or notional amount 2000
Equity securities	261,676	242,969
S&P 500 Futures (notional amounts)	248,150	456,650
S&P 500 Options (notional amounts)	<u>315,650</u>	<u>382,450</u>
	<u>825,476</u>	<u>1,082,069</u>

The range of the S&P 500 option index strike prices vary from 1,375 (2000:1,385) to 1,445 (2000:1,455). The S&P index at 31 December 2001 was 1,385 (2000:1,395)

### B Interest rate risk

32p43(ii) The Fund is exposed to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.

32p56(a) The table below summarises the Fund's exposure to interest rate risks. Included in the table are the Fund's assets and trading liabilities at fair values, categorised by the earlier of contractual repricing or maturity dates. The fair values of derivative financial instruments are included below in 'Other assets' and 'Other Liabilities' under the heading 'Non-interest bearing'. The off balance sheet gap represents the net notional amounts of all interest sensitive financial instruments.

## 2 Use of financial instruments (continued)

### B Interest rate risk

32p56(a) 32p64(a) 32p60	As at 31 December 2001	Up to 1 year	1-5 years	over 5 years	Non-interest bearing	Total
	<b>Assets</b>					
	Cash and bank balances	285,040	–	–	–	285,040
	Trading securities	21,939	–	–	12,751	34,690
	Available-for-sale securities	155,230	52,100	50,650	261,676	519,656
	Other assets	–	–	–	406,036	406,036
	<b>Total assets</b>	<b>462,209</b>	<b>52,100</b>	<b>50,650</b>	<b>680,463</b>	<b>1,245,422</b>
	<b>Liabilities</b>					
	Due under repurchase arrangements	21,939	–	–	–	21,939
	Other liabilities	–	–	–	185,121	185,121
	<b>Total liabilities</b>	<b>21,939</b>	<b>–</b>	<b>–</b>	<b>185,121</b>	<b>207,060</b>
	<b>Interest sensitivity gap for on balance sheet items</b>	<b>440,270</b>	<b>52,100</b>	<b>50,650</b>		
	<b>Interest sensitivity gap for interest rate futures</b>	<b>241,900</b>	<b>95,650</b>	<b>890</b>		
	<b>Net interest sensitivity gap</b>	<b>198,370</b>	<b>(43,550)</b>	<b>49,760</b>		
32p56(a) 32p64(a) 32p60	As at 31 December 2000	Up to 1 year	1-5 years	over 5 years	Non-interest bearing	Total
	<b>Assets</b>					
	Cash and bank balances	324,565	–	–	–	324,565
	Trading securities	22,041	–	–	8,949	30,990
	Available-for-sale securities	471,968	51,550	50,100	242,969	816,587
	Other assets	–	–	–	576,205	576,205
	<b>Total assets</b>	<b>818,574</b>	<b>51,550</b>	<b>50,100</b>	<b>828,123</b>	<b>1,748,347</b>
	<b>Liabilities</b>					
	Due under repurchase arrangements	22,041	–	–	–	22,041
	Other liabilities	–	–	–	107,883	107,883
	<b>Total liabilities</b>	<b>22,041</b>	<b>–</b>	<b>–</b>	<b>107,883</b>	<b>129,924</b>
	<b>Interest sensitivity gap for on balance sheet items</b>	<b>796,533</b>	<b>51,550</b>	<b>50,100</b>		
	<b>Interest sensitivity gap for interest rate futures</b>	<b>372,057</b>	<b>125,650</b>	<b>58</b>		
	<b>Net interest sensitivity gap</b>	<b>424,476</b>	<b>74,100</b>	<b>50,042</b>		

## 2 Use of financial instruments (continued)

### B Interest rate risk (continued)

32p56(b) The table below summarises the average effective interest rate for monetary  
 32p64(d) financial instruments:  
 32p62

	2001	2000
	%	%
<b>Assets</b>		
Cash and bank balances	5.41	5.89
Trading securities – debt securities	5.65	6.21
Available-for-sale securities – debt securities	5.85	6.18
<b>Liabilities</b>		
Due under repurchase arrangements	5.25	5.68

### 32p43(c) C Credit risk

Credit risk is the risk that an issuer or counterparty will be unable or unwilling to meet a commitment that it has entered to with the Fund.

32p66(b) The Fund's credit risk concentration is spread between interest rate, and equity securities and trading derivative products as discussed above under market risk diversification. At any time, less than 10% of the fair value of favourable contracts outstanding are with any individual counterparty.

All transactions in listed securities are settled/paid for upon delivery using approved brokers. The risk of default is considered minimal since delivery of securities sold is only made once the broker has received payment. On a purchase, payment is made once the securities have been received by the broker. If either party fails to meet their obligation, the trade will fail.

32p66  
 32p41 The Fund restricts its exposure to credit losses on the trading derivative instruments it holds by entering into master netting arrangements with counterparties (approved brokers) with whom it undertakes a significant volume of transactions. Master netting arrangements do not result in an offset of balance sheet assets and liabilities as transactions are usually settled on a gross basis. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if an event of default occurs, all amounts with the counterparty are terminated and settled on a net basis. The Fund's overall exposure to credit risk on derivative instruments subject to a master netting arrangement can change substantially within a short period since it is affected by each transaction subject to the arrangement. As at 31 December 2001, master netting arrangements reduced the credit risk on favourable contracts having a fair value of USD 110,750 (2000: USD 177,950).

### 32p43(c) D Liquidity risk

The Fund's listed securities are considered to be readily realisable as they are listed on the New York stock exchange.

The Fund has the ability to borrow in the short term to ensure settlement, although no such borrowings have arisen during the year.

### E Currency risk

The Fund has no significant currency risk because substantially all assets and liabilities are denominated in US dollars.

*[If significant currency risk exists then a table would be required]*

### 3 Interest income

		2001	2000
18p30(a)	Bond interest	27,990	29,289
18p30(a)	Bank interest	18,661	19,527
39p17o(c)		<u>46,651</u>	<u>48,816</u>

### 4 Net gain on available-for-sale and trading securities (excluding interest income)

		2001	2000
	Net realised gain		
	Trading securities:		
39p78	Foreign currency gains and losses	–	–
39p170c(i)	Other market gains and losses	5,242	157,188
	Available-for-sale securities:		
39p78	Foreign currency gains and losses	–	–
39p170c(i)	Other market gains and losses	<u>33,194</u>	<u>23,116</u>
39p170c(ii)	Total net realised gain	<u>38,436</u>	<u>180,304</u>
	Net unrealised gain		
	Trading securities:		
39p78	Foreign currency gains and losses	–	–
39p170c(i)	Other market gains and losses	7,217	39,561
	Available-for-sale securities:		
39p78	Foreign currency gains and losses	–	–
39p170c(i)	Other market gains and losses	<u>2,288</u>	<u>5,027</u>
39p170c(ii)	Total net unrealised gain	<u>9,505</u>	<u>44,588</u>
		<u>47,941</u>	<u>224,892</u>

### 5 Related parties

24p22 Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. The Fund is managed by XYZ Investment Management Limited, an investment management company incorporated in [name of country.] Under the terms of the Management Agreement dated [date], the Fund appointed XYZ Investment Management Limited as a manager to provide management, secretarial, registrar and administrative services to the Fund. XYZ Limited receives from the Fund in return, a fee based on the net asset value of each class of fund payable quarterly in advance using the annual rate of 0.60%.

During the year, the Fund paid management and administration fees to the Manager, as disclosed in the income statement. Out of this fee, the administrator's, Registrar's and the Investment Advisors fees were paid.

The Fund has engaged the services of XYZ Custody Bank Limited, a fellow subsidiary company of the manager, to provide custodian services for a fee as disclosed in the income statement. The fees are charged on a scale of 0.075% per annum on the first USD 5 million of the Fund, then 0.04% thereafter on the net asset value of the Fund.

## 5 Related parties (continued)

### Shares held by related parties

Parties related to the manager held shares in the Fund during the year as follows:

	2001	2000
Opening balance	2,000	2,000
New shares	–	1,850
Disposals	–	(1,850)
	<hr/>	<hr/>
Closing balance	2,000	2,000

### Directors remuneration

The listing of the members of the Board of Directors is shown on page [insert page number with list of directors] of the annual report. In 2001 the total remuneration of the directors was USD87 (2000:USD 83).

## 6 Taxation and deferred taxation

12p79,82

The tax charge for the year comprises:

	2001	2000
US withholding taxes	3,564	5,449
	<hr/>	<hr/>

No deferred tax arose during the year (2000:nil) as the Fund did not hold any securities subject to capital gains tax on disposal.

## 7 Net asset value per share and earnings per share

	2001	2000
Net asset value at bid market prices	1,038,362	1,618,423
Adjustment to mid market prices	11,217	9,850
	<hr/>	<hr/>
Adjusted net asset value at mid market prices	1,049,579	1,628,273
Adjusted net asset value per share	54.54	52.31
	<hr/>	<hr/>
33p10 Earnings per share	3.87	8.34
	<hr/>	<hr/>

The adjusted net asset value per share is calculated in accordance with the memorandum and articles of association and is based on the mid market prices instead of the bid prices that are used in the financial statements and the number of participating preference shares in issue at the year end.

33p49 Earnings per share is based on weighted average number of participating preference shares 25,183 (2000: 30,088) and net profit attributable to the shareholders of USD 84,196 (2000: USD 263,693).

## 8 Margin accounts

Margin accounts represents the exchange traded futures contracts' margin deposits amounts held with brokers.

## 9 Due from/to brokers

Due on/for settlement represents investment and trading securities' regular way purchases and sales transactions contracted for but not yet delivered at the end of the year.

## 10 Derivative financial instruments

32p47(a) The Fund's derivative financial instruments and other liabilities outstanding at year-end are  
 32p66(a) detailed below:

		Year ended 31 December 2001	
32p47(a) 32p77		Fair values	
		Assets	Liabilities
<b>Derivatives</b>			
Interest rate derivatives			
Interest rate futures – bought and sold		62,927	(26,477)
Exchange traded interest rate options – bought and sold		46,890	(25,950)
		<u>109,817</u>	<u>(52,427)</u>
<b>S&amp;P 500 Index derivatives</b>			
Index options – bought and sold		55,755	(24,790)
Index futures – bought and sold		53,695	(31,100)
		<u>109,450</u>	<u>(55,890)</u>
<b>Total derivative assets/(liabilities)</b>		<u>219,267</u>	<u>(108,317)</u>
		Year ended 31 December 2000	
32p47(a) 32p77		Fair values	
		Assets	Liabilities
<b>Derivatives</b>			
<b>Interest rate derivatives</b>			
Interest rate futures – bought and sold		55,275	(14,204)
Exchange traded interest rate options – bought and sold		70,075	(18,196)
		<u>125,350</u>	<u>(32,400)</u>
<b>S&amp;P 500 Index derivatives</b>			
Index options – bought and sold		57,982	(26,700)
Index futures – bought and sold		82,368	(28,650)
		<u>140,350</u>	<u>(55,350)</u>
<b>Total derivative assets/(liabilities)</b>		<u>265,700</u>	<u>(87,750)</u>

S&P 500 index and interest rate futures are contractual obligations to buy or sell financial instruments on a future date at a specified price established in an organised market. The futures contracts are collateralised by cash or marketable securities and changes in the futures contracts value are settled daily with the exchange.

39p170(g) The carrying amount of financial assets pledged as collateral for liabilities is USD 42,900 [2000:USD 38,300].

39p170h(i) The fair value of collateral that has been accepted and the Fund is permitted to sell or repledge in the absence of default is USD 54,600 [2000: 48,950].

39p170h(ii) The Fund has not sold or repledged any collateral during the period.

39p170h(iii) There are no significant terms and conditions associated with the use of collateral.

S&P 500 index and interest rate options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (call option) or sell (put option) at or by a set date, a specific financial instrument at a predetermined price. In consideration for the assumption of exposure to the movements in the index or interest rate risk, the seller receives a premium from the purchaser.

## 10 Derivative financial instruments (continued)

Notional amounts are the reference amounts of equity and interest securities specified in the derivative options and futures contracts. The notional amounts of derivatives do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Fund's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or S&P 500 index relative to their terms.

The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable and, thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. The average fair values of derivative instruments on hand during the year are set out in the following table.

		2001	2000
32p94(c)	Favourable derivative financial instruments (assets)	217,320	268,450
	Unfavourable derivative financial instruments (liabilities)	(107,550)	(97,350)

The Fund's risk management policies and strategies on derivative financial instruments are discussed in note 2 of these financial statements.

## 11 Available-for-sale securities

		2001	2000
	Debt securities	257,980	573,618
	Equity securities	261,676	242,969
	Available-for-sale securities	<u>519,656</u>	<u>816,587</u>

On 1 January 2001, the Fund adopted IAS 39. The effect was to revalue all investment securities at market bid prices instead of mid market prices. See statement of changes in shareholders equity.

An analysis of the investments held by the Fund at 31 December 2001 is given in note 2.

## 12 Trading securities and repurchase arrangements

		2001	2000
	Debt securities held-for-sale	21,939	19,599
	Equity securities held-for-sale	12,751	11,391
		<u>34,690</u>	<u>30,990</u>

39p170(d) Included in the trading securities were securities pledged under repurchase agreements with other counterparties whose market value at 31 December 2001 was USD 21,939 (2000: USD 22,041). All repurchase agreements are maturing within twelve months from the inception.

## 13 Accrued expenses

		2001	2000
1p72	Management fee	670	1,132
	Custodian fee	415	1,057
		<u>1,085</u>	<u>2,189</u>

## 14 Share capital

1p74 The authorised share capital of the Fund is USD 1,000,000(2000:USD 1,000,000) divided into 19,998,000 preference shares of USD 0.05 each and 100 ordinary shares of USD 1 each.

All issued preference shares are fully paid and have been admitted to the official listing of the *[name of ]* Stock Exchange. Preference shares carry one vote each. They are entitled to dividends and to payment of net value on liquidation.

The 100 nominal ordinary shares are in issue and each carries one vote. They are not entitled to dividends but are entitled to repayment of USD 100 on the liquidation of the company.

Movement in issued preference share capital during the period was as follows:

1p74	Number of shares	Share Capital	Share premium
At 1 January 2000	29,062	1,453	69,132
Issue of shares	3,560	178	166,621
Redemption of shares	(1,500)	(75)	(4,602)
At 31 December 2000	31,122	1,556	231,151
Issue of shares	839	42	46,675
Redemption of shares	(12,717)	(636)	(39,025)
At 31 December 2001	19,244	962	238,801

Preference shares are issued and redeemed at the option of the holders at prices based on the value of the net assets of the Fund at the time of issue/redemption.

## 15 Dividend payable

10p11 At an Annual General Meeting on *[date]* 2002, dividends in respect of 2001 totalling USD  
 10p12(b) 35,250 (2000: USD 36,255, 1999:USD38,801) will be proposed. The financial statements for the year ended 31 December 2001 do not reflect this resolution, which will be accounted for in shareholders equity as an appropriation of retained profits in the year ending 31 December 2002.

## 16 Post balance sheet events

10p7,9 There were no material post balance sheet events which have a bearing on the understanding of the financial statements.

## Report of the auditors

To the Members *[Shareholders]* of ABC Fund

We have audited the accompanying balance sheet of ABC Fund (the Fund) as of 31 December 2001 and the related income and cash flow statements for the year then ended. These financial statements set out on pages xx to xx are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements give a true and fair view of *[or 'present fairly in all material respects']* the financial position of the Fund as of 31 December 2001 and of the results of its operations and its cash flows for the year then ended in accordance with International Accounting Standards.

**PRICEWATERHOUSECOOPERS** 

Date

Address

*The format of the audit report will need to be tailored to reflect the legal framework of particular countries. In certain countries the audit report covers both the current year and the comparative year.*

## General information

- 1p102(b)** ABC Fund (“the Fund”) is a closed ended investment company registered with limited liability in *[name of territory under jurisdiction]* on *[date]* under the provisions of the *[name of the relevant legislation in the territory under jurisdiction]*
- 1p102(a)** The Fund’s shares are listed on the *[name of city]* stock exchange. The address of the Fund’s registered office is as follows: *[address of registered office]*
- 1p102(d)** The fund has no employees.
- 10p16** The Fund’s financial statements were authorised for issue on *[the date]* by *[the name of the body that gave the authorisation]*.
- 1p102(b)** The principal activity of the Fund is investment holding with an objective to achieve long term capital appreciation of its assets through investment in selected Malaysian unlisted equities.

## Index to the illustrative closed ended fund financial statements

	Page
Income statement	25
Balance sheet	26
Statement of changes in shareholders' equity	27
Cash flow statement	28
Notes to the financial statements	
1 Accounting policies	29
A Basis of preparation	
B Foreign currency translation	
C Offsetting financial instruments	
D Interest income	
E Available-for-sale securities	
F Cash and cash equivalents	
G Taxation and deferred tax	
H Share capital	
I Dividends payable	
J Net asset value per share and earnings per share	
K Expenses	
2 Use of financial instruments	31
3 Gain on available-for-sale securities	34
4 Related parties	34
5 Taxation and deferred taxation	34
6 Net assets value per share and earnings per share	35
7 Due from/to brokers	35
8 Available-for-sale securities	35
9 Share capital	35
10 Dividends payable	36
11 Post balance sheet events	36

## Income statement

1p75,77	(all amounts in EURO thousands)	Notes	<u>Year ended 31 December</u>	
			2001	2000
1p75	<b>Revenue</b>			
39p170(c)	Interest income		8,317	12,714
	Dividend income		54,884	57,431
	Gain/(loss) on disposal of available-for-sale securities	3	<u>(12,785)</u>	<u>49,423</u>
	<b>Total investment income</b>		50,416	119,568
1p77	<b>Expenditure</b>			
	Management and performance fees	4	14,991	27,759
	Custodian fee	4	3,401	3,742
	Auditors fee		24	23
	Directors fees	4	87	83
	Other operating expenses		<u>2,607</u>	<u>4,839</u>
	<b>Operating expenditure</b>		<u>21,110</u>	<u>36,446</u>
1p75(f)	<b>Profit from ordinary activities before tax</b>		29,306	83,122
1p75(e)	Tax	5	<u>(8,233)</u>	<u>(8,614)</u>
1p75(l)	<b>Net profit on ordinary activities</b>		<u>21,073</u>	<u>74,508</u>
33p47	Earnings per share	6	<u>0.67</u>	<u>2.39</u>

## Balance sheet

(all amounts in EURO thousands)		Notes	As at 31 December	
			2001	2000
1p66,67	<b>ASSETS</b>			
1p66(c)	<b>Financial assets</b>			
	Cash and bank balances		121,295	163,366
	Due from brokers	7	56,056	83,655
	Available-for-sale securities	8	1,619,222	1,447,104
	Sundry debtors		4,789	5,273
	<b>Total assets</b>		<u>1,801,362</u>	<u>1,699,398</u>
	<b>LIABILITIES</b>			
1p66(h)	<b>Trading and other payables</b>			
	Accrued expenses including performance fee		68,514	67,221
	Due to brokers	7	97,658	39,985
	<b>Total liabilities</b>		<u>166,172</u>	<u>107,206</u>
	<b>Total assets less liabilities</b>		<u>1,635,190</u>	<u>1,592,192</u>
1p66(m)	<b>ISSUED CAPITAL AND RESERVES</b>			
	Share capital	9	1,556	1,556
	Share premium	9	170,051	170,051
	Fair value reserve		1,102,507	1,041,781
	Retained earnings		361,076	378,804
	<b>Total shareholders' funds</b>		<u>1,635,190</u>	<u>1,592,192</u>
	Net asset value per share	6	<u>52.54</u>	<u>51.16</u>

## Statement of changes in shareholders' equity

(all amounts in EURO thousands)			Share	Share	Fair value	Retained	
		Notes	Capital	Premium	Reserve	Earnings	Total
<b>1p86(f,e)</b>	Balance at 1 January 2000	9	1,556	170,051	866,312	346,846	1,384,765
<b>1p86(a)</b>	Net profit on ordinary activities		–	–	–	74,508	74,508
	Gain on investments	3	–	–	224,892	–	224,892
	Realised gain released on sale of investment securities	3	–	–	(49,423)	–	(49,423)
<b>1p86(d)</b>	Dividends paid	10	–	–	–	(42,550)	(42,550)
	Balance at 31 December 2000	9	<u>1,556</u>	<u>170,051</u>	<u>1,041,781</u>	<u>378,804</u>	<u>1,592,192</u>
	Balance at 1 January 2001	9	1,556	170,051	1,041,781	378,804	1,592,192
<b>1p86(a)</b>	Net profit on ordinary activities		–	–	–	21,073	21,073
	Gain on investments	3	–	–	47,941	–	47,941
	Realised loss released on sale of investment securities	3	–	–	12,785	–	12,785
<b>1p86(d)</b>	Dividends paid	10	–	–	–	(38,801)	(38,801)
	Balance at 31 December 2001		<u>1,556</u>	<u>170,051</u>	<u>1,102,507</u>	<u>361,076</u>	<u>1,635,190</u>

*[The pre-IAS 39 fair value gain that had been reported in equity continues to be reported as a separate component of equity since the investments have been classified as available-for-sale securities and the Fund has adopted the policy of reporting change in fair value directly in equity until the available-for-sale securities are sold, collected, or otherwise disposed of or determined to be impaired. However, if the Fund were to adopt a policy of reporting fair value gains and losses on available-for-sale assets in income, there would need to be a reclassification within reserves from fair value reserve to retained earnings on adoption of IAS 39.]*

*The Fund had invested in unquoted equity securities which were carried at fair value based on price/earnings ratios and discounted cash flows at 31 December 2000. Under IAS 39, the Fund has classified these securities as available-for-sale securities on 1 January 2001 and carried them at their fair values based on price/earning ratios and discounted cash flows. Accordingly, adoption of IAS 39 did not result in any adjustments to the opening reserves on 1 January 2001.]*

## Cash flow statement

7p10 7p18(b)	(all amounts in EURO thousands)	Notes	<u>Year ended 31 December</u>	
			2001	2000
	<b>Net profit on ordinary activities</b>		21,073	74,508
	Adjustment for:			
	Dividend income		(54,884)	(57,431)
	Tax	5	8,233	8,614
	Interest income		(8,317)	(12,714)
7p20(c)	Net losses/(gains) on disposal of investments	3	<u>12,785</u>	<u>(49,423)</u>
7p14	Operating result before working capital changes		(21,110)	(36,446)
	Net decrease in sundry debtors		484	1,133
	Net decrease/(increase) in due to/from brokers	7	85,272	(43,670)
	Net (decrease)/increase in accrued expenses		<u>1,293</u>	<u>14,066</u>
	Cash generated from operations		65,939	(64,917)
7p31	Dividend received		54,884	57,431
7p31	Interest received		8,317	12,714
7p35	Taxes paid	5	<u>(8,233)</u>	<u>(8,614)</u>
	Net cash from/(used) in operating activities		<u>120,907</u>	<u>(3,386)</u>
	<b>Cash flows from investing activities</b>			
7p16(c)	Purchases of available-for-sale securities	8	(345,922)	(401,350)
7p16(d)	Proceeds from sale of available-for-sale securities	8	<u>221,745</u>	<u>262,450</u>
	Net cash used in investing activities		<u>(124,177)</u>	<u>(138,900)</u>
	<b>Cash flows from financing activities</b>			
7p34	Dividend paid	10	<u>(38,801)</u>	<u>(42,550)</u>
	Net cash used in financing activities		<u>(38,801)</u>	<u>(42,550)</u>
	<b>Net decrease in cash and cash equivalents</b>		(42,071)	(184,836)
	Cash and cash equivalents at beginning of year		<u>163,366</u>	<u>348,202</u>
	<b>Cash and cash equivalents at end of year</b>		<u>121,295</u>	<u>163,366</u>

## 1 Accounting policies

1p91(a) The principal accounting policies adopted in the preparation of these financial statements are set  
1p97(b) out below:

### A Basis of presentation

1p11 The financial statements are prepared in accordance with International Accounting Standards.  
1p97(a) The financial statements are prepared under the historical cost convention as modified by the fair valuation of available-for-sale securities, financial assets and financial liabilities held for trading.

21p43 The Fund's shares are marketed to European investors. Consequently the measurement currency of the Fund is EURO and not *[insert LC name]* reflecting the fact that the ordinary shares of the Fund are issued in EURO. Distributions to the investors are also made in EURO.

### B Foreign currency translation

1p99(p) Monetary assets and liabilities denominated in foreign currencies are translated into EURO at exchange rates in effect at the date of the financial statements. Realised and unrealised gains and losses on foreign currency transactions are charged or credited to the income statement as foreign currency gain and losses except where they relate to equity investments where such amounts are included within realised and unrealised gains and losses on investments. The cost of investments, income and expenses are translated into EURO based on exchange rates on the date of the transaction.

### C Offsetting financial instruments

32p33 Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

### D Interest income

1p99(a) Interest income is recognised in the income statement for all interest bearing instruments on  
18p35(a) an accrual basis using the effective yield method. Interest income includes interest earned on cash deposits.

### E Available-for-sale securities

39p10 At 1 January 2001 the Fund adopted IAS 39 and classified its investment securities as available  
39p68 for-sale. The Fund intends to hold the investments for an indefinite period of time.

1p99(i) All investment securities are initially recognised at cost (which includes transaction costs). The securities are subsequently re-measured at fair value. Fair values for unquoted equity instruments are estimated using price/earnings ratios and cash flows. Fair values for quoted equity instruments are based on quoted bid prices. Gains and losses arising from changes in the fair value of equity securities classified as available-for-sale (including any inherent currency gains or losses) are recognised in equity as they arise. When the securities are disposed off or once they are impaired, the related accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

39p70, 102  
39p167(b) *[Note – the Fund could adopt the alternative policy under IAS 39 under which gains and losses arising from changes in the fair value of available-for-sale securities are recognised in the income statement as they arise.]*

## 1 Accounting policies (continued)

### E Available-for-sale securities (continued)

- 18p35 (b) Dividends are recognised when the Fund's right to receive payment is established. Dividends received are disclosed separately as dividend income in the income statement.
- 39p27  
39p30 All purchases and sales of investments securities that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recognised at trade date, which is the date on which the Fund commits to purchase or sell the asset. In cases which are not within the time frame established by regulation or market convention, such transactions are recognised on settlement date. Any change in fair value of the asset to be received is recognised between the trade date and settlement date.

### F Cash and cash equivalents

- 7p46  
1p99(r) Cash comprises cash on hand and demand deposits. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant changes in value.

### G Taxation

- 1p99(m) The Fund is domiciled in *[insert the name of the domicile]* which is an Offshore jurisdiction and is exempt from paying income or capital gains tax of that jurisdiction. The Fund pays an exempt company fee charged at a rate of LC *[insert the amount in LC]* per annum.
- The Fund currently incurs withholding tax imposed by certain countries on investment income recorded gross of withholding tax in the income statement.
- In limited events, a fund may be subject to capital gain taxes in which case the following policy may be applied: The Fund also incurs capital gains tax imposed on holders of securities by certain countries. Capital gains are recorded gross of such taxes in the income statement.*
- Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.*
- 12p58 *Deferred tax related to fair value remeasurement of available-for-sale securities is charged to the fair value reserve in equity.*

### H Share capital

- 32p18 The Fund's ordinary shares with discretionary dividends are classified as equity.

### I Dividends payable

- 10p11  
32p30 Proposed dividends are accounted for when they are ratified by the Annual General Meeting. Once ratified, dividends declared are then recognised in equity in the period in which they are declared.

### J Net asset value per share and earnings per share

- 1p101 The net asset value per share is calculated by dividing the net assets included in the balance sheet by the number of participating shares in issue at the year end.
- 33p10 Earnings per share is calculated by dividing the net profit attributable to the ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

## 1 Accounting policies (Continued)

### K Expenses

Expenses are accounted for on accrual basis. Expenses are charged to the income statement except for expenses incurred on the acquisition of an investment which are included within the cost of that investment. Expenses arising on the disposal of investments are deducted from the disposal proceeds.

1p46(d-e) (In the notes all amounts are shown in EURO thousands unless otherwise stated)

## 2 Use of financial instruments

32p43 The Fund invests in selected unlisted equities in Malaysia with an objective of achieving long term capital appreciation. The Fund manager intends to carry a direct exposure to Malaysian equities of between 85-100% of the net assets of the Fund.

The Fund is exposed to a number of risks arising from the various financial instruments it holds. The main risks to which the Fund is exposed are: market price risk, currency risk, credit risk, interest risk and liquidity risk. The risk management policies employed by the Fund to manage these risks are discussed below:

### 32p43a(iii) A Market price risk

The Fund's unquoted equity securities are susceptible to market price risk arising from uncertainties about future values of the investment securities. The Fund's manager, XYZ Investment Management Limited, advises the Fund on the equity securities that have prospects to appreciate in value in the medium and long term period. The manager's recommendations are reviewed by the Board of Directors before the investment decisions are implemented. The Fund's investments restrictions prohibit investing more than 30% of the Fund's assets in any one industry sector. At the balance sheet date, the exposure to Malaysian equity securities at fair value were as follows:

#### Schedule of Malaysian investment securities as at 31 December 2001

	Fair Value	% of Total Net Assets
<b>Oil and gas</b>		
2,000 Shares of [name of the entity]	153,850	9.41
1,500 Shares of [name of the entity]	135,760	8.30
2,300 Shares of [name of the entity]	98,575	6.03
200 Shares of [name of the entity]	14,620	0.89
	<u>402,805</u>	<u>24.63</u>
<b>Technology</b>		
1,500 Shares of [name of the entity]	120,766	7.38
1,800 Shares of [name of the entity]	139,265	8.52
900 Shares of [name of the entity]	78,900	4.83
800 Shares of [name of the entity]	44,281	2.71
	<u>383,212</u>	<u>23.44</u>
<b>Manufacturing</b>		
1,200 Shares of [name of the entity]	101,350	6.20
1,500 Shares of [name of the entity]	105,809	6.47
900 Shares of [name of the entity]	98,750	6.04
1,100 Shares of [name of the entity]	103,641	6.34
	<u>409,550</u>	<u>25.05</u>

## 2 Use of financial instruments (continued)

### A Market price risk (continued)

#### Financial Services

3,000 Shares of [name of the entity]	163,980	10.03
500 Shares of [name of the entity]	36,875	2.25
1,300 Shares of [name of the entity]	120,960	7.40
2,200 Shares of [name of the entity]	101,840	6.23
	<u>423,655</u>	<u>25.91</u>
Total equity investments	<u>1,619,222</u>	<u>99.02</u>

The performance of investments held by the Fund is monitored by the Fund's manager on a monthly basis and reviewed on a quarterly basis by the board of directors.

Comparative amounts of equity investments are presented in note 8 of these financial statements.

### 32p43a(i) B Currency risk

The Fund holds assets denominated in currencies other than EURO, the measurement currency of the Fund. Consequently the Fund is exposed to currency risk since the value of the securities denominated in other currencies will fluctuate due to changes in exchange rates. The Fund's policy is not to enter into any currency hedging transactions.

The table below summarises the Fund's exposure to currency risks. Included in the table are the Fund's assets and liabilities at fair values categorised by their base currencies.

#### Concentration of assets and liabilities

As at 31 December 2001	EURO	Malaysian ringgit	Other currencies	Total
<b>Assets</b>				
Cash and bank balances	101,256	–	20,039	121,295
Available-for-sale securities	–	1,619,222	–	1,619,222
Other assets	60,845	–	–	60,845
Total assets	<u>162,101</u>	<u>1,619,222</u>	<u>20,039</u>	<u>1,801,362</u>
<b>Liabilities</b>				
	166,172	–	–	166,172
Total net assets	<u>(4,071)</u>	<u>1,619,222</u>	<u>20,039</u>	<u>1,635,190</u>
<b>As at 31 December 2000</b>				
<b>Assets</b>				
Cash and bank balances	122,365	–	41,001	163,366
Available-for-sale securities	–	1,447,104	–	1,447,104
Other assets	88,928	–	–	88,928
Total assets	<u>211,293</u>	<u>1,447,104</u>	<u>41,001</u>	<u>1,699,398</u>
<b>Liabilities</b>				
	107,206	–	–	107,206
Total net assets	<u>104,087</u>	<u>1,447,104</u>	<u>41,001</u>	<u>1,592,192</u>

## 2 Use of financial instruments (continued)

### B Currency risk

The Malaysian ringgit rate of exchange ruling at 31 December 2001 was 3.12 to the EURO (2000:3.25).

### 32p43(b) C Credit risk

Credit risk is the risk that an issuer or counterparty will be unable or unwilling to meet commitments it has entered to with the Fund.

32p66 All investing transactions are settled/paid for upon delivery using approved brokers. The risk of default is considered minimal since delivery of securities sold is only made once the broker has received payment. On a purchase, payment is made once the securities have been received by the broker. If either party fails to meet their obligation, the trade will fail.

32p66(b) As discussed above under market risk, the Fund's market risk is spread across various industry sectors. In addition to this, at any one time, less than 15% of the fair value of investments are from one issuer.

### 32p43a(ii) D Interest rate risk

Interest income from cash deposits may fluctuate in amount, in particular due to changes in the interest rates.

Whilst the Fund seeks to optimise overall performance from the assets it holds, it does not seek to maximise interest income in view of its policy to focus on investments in equity securities that neither earn nor pay interest.

### 32p43(c) E Liquidity risk/emerging market risks

The Fund has the ability to borrow in the short term to ensure settlement, although no such borrowings have arisen during the year.

There may be less publicly available information about an emerging market company than about a company in developed economies. Companies may not be subject to accounting, auditing and financial reporting standards and requirements comparable to, or as uniform as those of, companies in developed economies. The securities markets, while growing in volume, generally have substantially less volume than markets of developed economies, and many foreign securities are less liquid and their prices more volatile than comparable developed economy's securities. Transaction costs with respect to investments in emerging markets foreign securities are generally higher than in the developed economies, and there is generally less governmental supervision and regulation of foreign exchanges, brokers and issuers than there is in the developed economies. Moreover, it may be more difficult or expensive for the Fund to take appropriate legal action in courts in such cases.

### 32p77 F Fair value of financial assets and liabilities

All financial assets and liabilities of the Fund are included in the balance sheet at fair value.

### 3 Gain on available-for-sale securities

		2001	2000
39p103b(ii)	(Losses)/gain realised on disposal of available-for-sale securities	(12,785)	49,423
39p103b(ii)	Unrealised gain on available-for-sale securities	60,726	175,469
		<u>47,941</u>	<u>224,892</u>

### 4 Related parties

24p22 Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. The Fund is managed by XYZ Investment Management Limited, an investment management company incorporated in *[name of country.]* Under the terms of the Management Agreement dated *[date]*, the Fund appointed XYZ Investment Management Limited as a manager to provide management, secretarial, registrar and administrative services to the Fund. XYZ Limited receives from the Fund in return, a fee based on the net asset value of each class of fund payable quarterly in advance using the annual rate of 0.60%.

During the year, the Fund paid management and administration fees to the Manager, as disclosed in the income statement. Out of this fee, the administrator's, Registrar's and the Investment Advisors fees were paid.

The manager is also entitled to a performance fee first payable on 31 January 2003 and annually thereafter. The performance fee is based upon 5% of the net realised gains less realised losses on investments. The amount accrued includes a provision for fees that would become payable if the investments were sold at their carrying amounts.

The Fund has engaged the services of XYZ Custody Bank Limited, a fellow subsidiary company of the manager, to provide custodian services for a fee as disclosed in the income statement. The fees are charged on a scale of 0.075% per annum on the first EURO 5 million of Fund, then 0.04% thereafter on the net asset value of the Fund.

#### Shares held by related parties

Parties related to the manager held shares in the Fund during the year as follows:

	2001	2000
Balance at 1 January and 31 December 2001	<u>2,000</u>	<u>2,000</u>

#### Directors remuneration

The listing of the members of the Board of Directors is shown on page *[insert page number with list of directors]* of the annual report. In 2001 the total remuneration of the directors was EURO 87 (2000:EURO 83).

### 5 Taxation and deferred taxation

12p79	The tax charge for the year comprises:	2001	2000
	Tax for the year	<u>8,233</u>	<u>8,614</u>
12p82	No deferred tax arose during the year (2000:nil) as the Fund did not hold any securities subject to capital gains tax on disposal.		

## 6 Net asset value per share and earnings per ordinary share

	2001	2000
Net asset value	1,635,190	1,592,192
Net asset value per ordinary share	52.54	51.16
33p10 Earnings per share	0.67	2.39

33p10 Earnings per share is based on ordinary shares outstanding during the year 31,120 (2000: 31,120)  
 33p49 and the net profit attributable to ordinary shareholders of EURO 21,073 (2000: EURO 74,508).

## 7 Due from/to brokers

Due on/for settlement represents investment and trading securities' purchases and sales transactions contracted for but not yet delivered at the end of the year.

## 8 Available-for-sale securities

1p72 Equity investment securities by sector	2001	2000
Oil and gas	402,805	332,026
Technology	383,212	344,150
Manufacturing	409,550	372,268
Financial services	423,655	398,660
	1,619,222	1,447,104

On 1 January 2001, the Company adopted IAS 39 and values investment securities at fair values based on market bid prices where available and otherwise using industry models based on price/earnings ratios and discounted cash flows.

A more detailed analysis of the investments held by the Fund at 31 December 2001 is given on note 2 of these financial statements.

## 9 Share capital

1p74	2001	2000
Authorised share capital 20,000,000 ordinary shares @ EURO 0.05 par value	1,000,000	1,000,000
Ordinary shares-issued and fully paid	1,556	1,556
Share premium	170,051	170,051

Each issued and fully paid ordinary share is entitled to dividends when declared and carries one voting right.

## 10 Dividend payable

10p11 At an Annual General Meeting on *[date]* 2002, dividends in respect of 2001 totalling EURO  
10p12(b) 36,255 (2000: EURO 38,801, 1999:USD42,550) will be proposed. The financial statements for  
the year ended 31 December 2001 do not reflect this resolution, which will be accounted for in  
shareholders equity as an appropriation of retained profits in the year ending 31 December 2002.

## 11 Post balance sheet events

10p7 There were no material post balance sheet events which have a bearing on the understanding of  
10p9 the financial statements.

## Report of the auditors

To the Members *[Shareholders]* of ABC Fund

We have audited the accompanying balance sheet of ABC Fund (the Fund) as of 31 December 2001 and the related income and cash flow statements for the year then ended. These financial statements set out on pages xx to xx are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements give a true and fair view of *[or 'present fairly in all material respects']* the financial position of the Fund as of 31 December 2001 and of the results of its operations and its cash flows for the year then ended in accordance with International Accounting Standards.

**PRICEWATERHOUSECOOPERS** 

Date

Address

*The format of the audit report will need to be tailored to reflect the legal framework of particular countries. In certain countries the audit report covers both the current year and the comparative year.*

