

**THAI FOCUSED EQUITY U.S. FEEDER FUND LIMITED**

**REPORTS AND FINANCIAL STATEMENTS**

**FOR THE PERIOD FROM 1ST JULY 2006 (DATE OF COMMENCEMENT OF  
OPERATIONS) TO 31ST DECEMBER 2006**

## THAI FOCUSED EQUITY U.S. FEEDER FUND LIMITED

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# THAI FOCUSED EQUITY U.S. FEEDER FUND LIMITED

## ADMINISTRATION

### Directors

Douglas E. Barnett  
Lau Chung Wei Wayne

### Registered Office

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### Investment Manager

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### Auditors

PricewaterhouseCoopers  
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### Administrator, Registrar and Company Secretary

Goldman Sachs Management (Ireland) Limited  
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Administration Services Co

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Ireland

### Prime broker (also acting as Custodian)

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Peterborough Court  
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### Legal Advisers

(United States Law)  
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Craigmuir Chambers  
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Tortola, British Virgin Islands

**AUDITORS' REPORT TO THE SHAREHOLDERS OF  
THAI FOCUSED EQUITY U.S. FEEDER FUND LIMITED**  
(incorporated in the British Virgin Islands with limited liability)

**Report on the Financial Statements**

We have audited the accompanying financial statements of Thai Focused Equity U.S. Feeder Fund Limited (the "Feeder") which comprise the Balance Sheet as of 31st December 2006 and the Income Statement, Statement of Changes in Net Assets Attributable to Holders of Redeemable Common Shares and Cash Flow Statement for the period from 1st July 2006 (date of commencement of operations) to 31st December 2006 and a summary of significant accounting policies and other explanatory notes.

**Director's Responsibility for the Financial Statements**

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**Auditor's Responsibility**

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

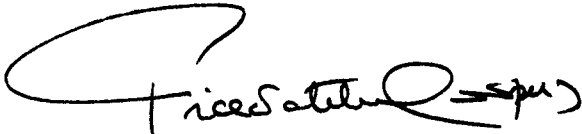
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**AUDITORS' REPORT TO THE SHAREHOLDERS OF  
THAI FOCUSED EQUITY U.S. FEEDER FUND LIMITED (Continued)**  
(incorporated in the British Virgin Islands with limited liability)

**Opinion**

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Feeder as of 31st December 2006, and of its financial performance and its cash flows for the period from 1st July 2006 (date of commencement of operations) to 31st December 2006 in accordance with International Financial Reporting Standards.



**PricewaterhouseCoopers**  
Certified Public Accountants

Hong Kong, 27 April 2007

**THAI FOCUSED EQUITY U.S. FEEDER FUND LIMITED**

**INCOME STATEMENT  
FOR THE PERIOD FROM 1ST JULY 2006 (DATE OF COMMENCEMENT OF OPERATIONS)  
TO 31ST DECEMBER 2006**

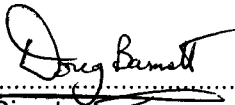
	Note	2006 US\$
Revenue		
Net unrealized gain on investments		7,076,984 -----
Expenses		
Audit fee		22,000 ----- 22,000 -----
Increase in net assets attributable to holders of redeemable common shares from operations		7,054,984 =====


The accompanying notes are an integral part of these financial statements.

THAI FOCUSED EQUITY U.S. FEEDER FUND LIMITED

BALANCE SHEET  
AS AT 31ST DECEMBER 2006

	Note	2006 US\$
<b>Assets</b>		
Investments	3	59,046,361
Total assets		<u>59,046,361</u>
<b>Liabilities</b>		
Audit fee payable		<u>22,000</u>
Liabilities (excluding net assets attributable to holders of redeemable common shares)		<u>22,000</u>
Net assets attributable to holders of redeemable common shares		<u>59,024,361</u>
Total liabilities		<u>59,046,361</u>

  
Director

  
Director

The accompanying notes are an integral part of these financial statements.

**THAI FOCUSED EQUITY U.S. FEEDER FUND LIMITED**

**STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE COMMON SHARES**

**FOR THE PERIOD FROM 1ST JULY 2006 (DATE OF COMMENCEMENT OF OPERATIONS) TO 31ST DECEMBER 2006**

	2006 US\$
Net assets attributable to holders of redeemable common shares at 1st July	-
Proceeds from subscription of redeemable common shares	5,400,000
In specie subscription of redeemable common shares (refer to page 7, note a)	46,569,377
	<hr/>
Net increase from share transactions	51,969,377
Increase in net assets attributable to holders of redeemable common shares from operations	7,054,984
	<hr/>
Net assets attributable to holders of redeemable common shares at 31st December	59,024,361
	<hr/> <hr/>

The accompanying notes are an integral part of these financial statements.

**THAI FOCUSED EQUITY U.S. FEEDER FUND LIMITED**

**CASH FLOW STATEMENT  
FOR THE PERIOD FROM 1ST JULY 2006 (DATE OF COMMENCEMENT OF OPERATIONS)  
TO 31ST DECEMBER 2006**

	2006 US\$
Cash flows from operating activities:	
Increase in net assets attributable to holders of redeemable common shares from operations	7,054,984
Adjustment for:	
Net change in unrealized gain on investments	(7,076,984)
	<u>(22,000)</u>
	-----
Increase in audit fee payable	22,000
	<u>-</u>
Net cash flow from operating activities	<u>-</u>
Cash flows from investing activities:	
Purchase of investments (refer to note a below)	(5,400,000)
	<u>-</u>
Net cash outflow from investing activities	<u>(5,400,000)</u>
Cash flows from financing activities:	
Proceeds from redeemable common shares (see note a below)	5,400,000
	<u>-</u>
Net cash inflow from financing activities	<u>5,400,000</u>
Net change in cash and cash equivalents	-
Cash and cash equivalents at 1 July	-
	<u>-</u>
Cash and cash equivalents at 31 December	<u>-</u>

Note a - Non cash transactions

On July 1, 2006, certain shareholders of another Fund managed by the same Investment Manager (the "Master Fund") transferred their interests in the Master Fund to the Thai Focused Equity U.S. Feeder Fund Limited (the "Feeder") via an in specie transfer. Therefore, no cash was paid for those subscriptions into the Feeder and no cash was paid for the simultaneous investment into the Master Fund by the Feeder. Both non-cash transactions were in the amount of \$46,569,377.

The accompanying notes are an integral part of these financial statements.

## **THAI FOCUSED EQUITY U.S. FEEDER FUND LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS**

**31ST December 2006**

#### **1 General**

Thai Focused Equity U.S. Feeder Fund Limited (the “Feeder”) was incorporated in the British Virgin Islands on 1st May 2006 and commenced operations on 1st July 2006. The objective of the Feeder is to seek superior long term capital appreciation through investment primarily in corporate equity securities of companies whose principal assets or operations are located in Thailand, or whose income is derived primarily from Thailand.

The Feeder is a feeder fund investing substantially all of its assets in Thai Focused Equity Fund Limited (the “Master Fund”), a British Virgin Islands company. The Master Fund may invest in long or short positions in privately negotiated (or restricted) common stocks of publicly traded companies, preferred stocks, stock warrants and rights, sovereign debts, corporate debts, bonds, notes or other debentures or debt participations, convertible securities swaps and other derivative instruments, partnership interests and other securities including those of investment companies. The Master Fund may sell securities short and employ leverage when deemed appropriate. The Master Fund may invest up to 25% of its net assets in other Asian countries. The Feeder has no employees.

The Investment Manager of the Feeder is Quest Management, Inc. (the “Investment Manager”), a British Virgin Islands company. Douglas E. Barnett (the “Principal”), the principal of the Investment Manager and a director of the Feeder, is responsible for making the investment decisions on behalf of the Investment Manager.

On 1st July 2006 (date of commencement of operations) the US investors of the Master Fund transferred their investment in the Master Fund to the Feeder by way of an in specie transfer whereby their shares in the Master Fund were exchanged for Class A1 and Class C1 shares of the feeder.

All references to net assets throughout these financial statements refer to net assets attributable to holders of redeemable common shares.

These financial statements of the Feeder should be read in conjunction with the financial statements of the Master Fund for the year ended 31 December 2006.

#### **2 Principal accounting policies**

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

##### **(a) Basis of preparation**

The financial statements are prepared in accordance with International Financial Reporting Standards. The financial statements are prepared under the historical cost convention as modified by the fair valuation of investments. The Feeder's functional currency is United States dollars (“USD”) and has also adopted USD as its presentation currency in the financial statements.

## THAI FOCUSED EQUITY U.S. FEEDER FUND LIMITED

### NOTES TO THE FINANCIAL STATEMENTS 31ST December 2006

#### 2 Principal accounting policies (Continued)

##### (a) Basis of preparation (Continued)

*Standards, amendments and interpretations effective in 2007, not early adopted*

IFRS 7, Financial Instruments: Disclosures, and the complementary Amendment to IAS 1, Presentation of Financial Statements - Capital Disclosures (*effective from 1st January 2007*). IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risk arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation.

It is applicable to all entities that report under IFRS. The amendment to IAS 1 introduces disclosure about the level of an entity's capital and how it manages capital.

The Feeder is assessing the impact of this new IFRS but is not yet in a position to state whether this new IFRS would have a significant impact on its results of operations and financial position.

##### (b) Translation of foreign currencies

###### i) *Functional and presentation currency*

The Feeder's investors are from the United States with the subscriptions and redemptions of the redeemable common shares denominated in US\$. The performance of the Feeder is measured and reported to the investors in US\$. The Board of Directors considers the US\$ as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions. The financial statements are presented in US\$, which is the Feeder's functional and presentation currency.

###### ii) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Translation differences on non-monetary financial assets and liabilities are recognised in the income statement within the fair value net gain or loss.

##### (c) Cash and cash equivalents

Cash and cash equivalents comprise of bank balances. 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.

##### (d) Investments

The investments of the Feeder comprise of investments in the Master Fund, an investment fund, which is initially recorded at fair value and subsequently re-measured at fair value.

## THAI FOCUSED EQUITY U.S. FEEDER FUND LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

31ST December 2006

#### 2 Principal accounting policies (Continued)

##### (d) Investments (Continued)

The Feeder's investment in the Master Fund represents the Feeder's share in the net assets of the Master Fund.

##### (e) Redeemable common shares

Redeemable common shares are redeemable at the shareholder's option subject to the lock up and notice periods described in note 6 and are classified as financial liabilities. The redeemable common share can be put back to the Feeder for cash equal to a proportionate share of the Feeder's net asset value. The redeemable common share is carried at the redemption amount that would be payable at the balance sheet date if the shareholder exercised the right to put the share back to the Feeder.

The net asset value per redeemable common share of the Feeder is calculated on a monthly basis, by dividing the net assets included in the balance sheet by the number of shares in issue as at that date.

Prices for issues of redeemable common shares are based on the net asset value as of the close of business on the immediately preceding business day in Thailand.

Prices for redemption of redeemable common shares are based on the net asset value as of the last business day in Thailand after deduction of the basic management fees and incentive fees attributable to the shares redeemed.

Proceeds and payments for redeemable common shares issued and redeemed are shown as movements in the statement of changes in net assets attributable to holders of redeemable common shares.

##### (f) Use of Estimates

The preparation of financial statements with International Financial Reporting Standards requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

#### 3 Investments

Investments comprise of Class C and D shares of the Master Fund. The Master Fund is not publicly traded and redemptions can only be made by the Feeder on the redemption dates specified in its Confidential Explanatory Memorandum.

As at 31st December 2006 the Feeder's proportionate interest in the net assets of the Master Fund was 23.21%. The performance of the Feeder is directly affected by the performance of the Master Fund.

At 31st December 2006, the Master Fund's securities portfolio was comprised mainly of listed securities in Stock Exchange of Thailand, a reverse repurchase agreement and warrants.

## THAI FOCUSED EQUITY U.S. FEEDER FUND LIMITED

### NOTES TO THE FINANCIAL STATEMENTS 31ST December 2006

#### 4 Fees

##### (a) Investment management basic fee

Pursuant to the Feeder's Confidential Explanatory Memorandum dated June 2006, the Investment Manager is entitled to receive an investment management basic fee as follows:

Class A2 shares	1.0% per annum
Class B2 shares	1.0% per annum
Class C2 shares	1.5% per annum
Class D2 shares	2.0% per annum

The investment management basic fee is calculated by reference to the net asset value and accrued as of the end of each month and is payable on a quarterly basis.

To the extent such fees are paid at the Master Fund Level, no such fees will be charged by the Feeder. No such fees were charged to the Fund for the period.

##### (b) Incentive Allocation

Pursuant to the Feeder's Confidential Explanatory Memorandum, the Manager shares are allocated an incentive fee from the Feeder calculated on a share-by-share basis so that each share is charged an incentive fee which equates precisely with that share's performance.

The Manager shares are allocated an incentive allocation for each financial year equal to 20% of the net income (including net realised and unrealised gains), if any, during such financial year allocable to each redeemable common share. If a redeemable common share has a loss chargeable to it during any financial year and during a subsequent year there is a profit allocable to the redeemable common share, there will be no incentive allocation with respect to the redeemable common share until the amount of the loss previously allocated to the redeemable common share has been recouped.

To the extent that such fees are paid at the Master Fund level, no such fees will be charged by the Feeder

For operational purposes, the Administrator performs certain equalisation adjustments. This is done so that (i) the incentive allocation is charged only to those shares which have appreciated in value since their acquisition, (ii) all shareholders will have the same amount per share at risk and (iii) all shares will have the same net asset value.

When new shareholders subscribe at a net asset value higher than the net asset value at which the incentive fee was last calculated (the "high water mark"), units equivalent to the incentive fee which is included in the subscription price as at the entry date (equalization factor) are returned to the relevant shareholders in the form of new shares as of the year end date.

When new shareholders subscribe at a net asset value lower than both the high water mark and the net asset value as at the year-end date following investment, such shareholders would be subject to an additional incentive fee calculated by reference to the net asset value at which they subscribed and the lower of the high water mark and the net asset value as at the year-end following investment which is effected through the redemption of shares with respect to the relevant shareholders.

## THAI FOCUSED EQUITY U.S. FEEDER FUND LIMITED

### NOTES TO THE FINANCIAL STATEMENTS 31ST December 2006

#### 4 Fees (Continued)

##### (b) Incentive Allocation (Continued)

When shareholders redeem during the year, such shareholders, according to the Feeder's Confidential Explanatory Memorandum, are liable to the payment of incentive allocation fee based on the net asset value achieved on the relevant redemption date.

According to the Feeder's Confidential Explanatory Memorandum, when shareholders purchase shares during the fiscal year at an offer price lower than year end net asset value per share but below the high water mark, defined at the beginning of the fiscal year as the net asset value per share as at the preceding fiscal year end date, an Incentive Allocation is payable by those particular shareholders to the Investment Manager. Such shareholders will have part of their shareholding redeemed to cover the Incentive Allocation payable to the investment manager as at the end of the fiscal year.

To the extent that such fees are paid at the master Fund Level, no such fees will be charged by the Fund.

##### (c) Administration fee

Under an Administration Services Agreement dated 17 October 2006, Goldman Sachs Management (Ireland) Limited (doing business as Goldman Sachs Administration Services Co) (Cayman) Limited acts as the administrator. The fee is payable monthly in arrears and accrued on a monthly basis as calculated based on the monthly net asset value of the Feeder at the following annual rates of Feeder's monthly net asset value and subject to a minimum fee of US\$50,000 per annum:

0.14% per annum on the first US\$100 million of the net asset value  
0.12% per annum on the next US\$100 million of the net asset value  
0.10% per annum above US\$200 million of the net asset value

To the extent that such fees are paid at the Master Fund Level, no such fees will be charged by the Feeder. No such fees were charged to the Fund for the period.

#### 5 Taxation

The Feeder is domiciled in the British Virgin Islands which is an off-shore jurisdiction and the Feeder is exempt from paying income or capital gains taxes of that jurisdiction.

The Feeder has filed with the United States Internal Revenue Service to elect to be treated as a partnership for United States federal income tax purposes.

#### 6 Redeemable common shares

The Feeder is authorized to issue a maximum of 15,050,000 shares of no par value which may be Class A1 Shares, Class A2 Shares, Class B1 Shares, Class B2 Shares, Class C1 Shares, Class C2 Shares, Class D1 Shares or Class D2 Shares provided that there shall at any time be:

- (a) a maximum of 50,000 Manager Shares; and
- (b) a maximum of 15,000,000 Investor Shares

## THAI FOCUSED EQUITY U.S. FEEDER FUND LIMITED

### NOTES TO THE FINANCIAL STATEMENTS 31ST December 2006

#### 6 Redeemable common shares (Continued)

Class A1 Shares, Class A2 Shares, Class C1 Shares, Class C2 Shares, Class D1 Shares and Class D2 Shares are referred to as "Investor Shares" while Class B1 Shares and Class B2 Shares are referred to as "Manager Shares".

The investor shares are subscribed to by investors. The manager shares are subscribed to solely by the Investment Manager or its affiliates, and are identical to investor shares except that the manager shares are entitled to the incentive allocation as described in note 4(b) to the financial statements.

Investor Shares and Manager Shares are referred to as "Common Shares". Class A1, Class B1, Class C1 and Class D1 shares are held only by those shareholders whose Common Shares were transferred from the Master fund. Class A2, Class B2, Class C2 and Class D2 shares are subject to a lock up period of twenty five months following their purchase. The lock up period is currently being waived pending new rules from the US Securities and Exchange Commission. Each Common Share has equal dividend, distribution and liquidation rights (except as to the Incentive Allocation).

All issued redeemable common shares are fully paid, entitle them to dividends and voting powers and are identical except for the differences in investment management basic fee charged and redemption notice periods.as follows:

	Investment management basic fee	Redemption notice period
Investor share Class A1	-	1 month
Investor share Class A2	1.0%	1 month
Manager share Class B1	-	1 month
Manager share Class B2	1.0%	1 month
Investor share Class C1	1.5%	3 months
Investor share Class C2	1.5%	3 months
Investor share Class D1	2.0%	6 months
Investor share Class D2	2.0%	6 months

The Feeder does not anticipate paying any dividends on its Investor Shares. Please also refer to note 4.

Redeemable common shares in issue are as follows:

	A1	C1	C2	D2
	Shares	Shares	Shares	Shares
2006				
Balance at 31 December	<u>61,429.7840</u>	<u>55,206.7241</u>	<u>10,290.1239</u>	<u>2,173.1812</u>

There were no A2, B1, B2 or D1 redeemable common shares issued during the period.

## THAI FOCUSED EQUITY U.S. FEEDER FUND LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

31ST December 2006

#### 7 Financial instruments

The Feeder is exposed to market risk, credit risk, currency risk, off-balance sheet risk, liquidity risk and interest rate risk by virtue of its investments in the Master Fund. The risk management policies employed by the Master Fund to manage these risks are discussed below:

##### (a) Market risk

Investing in Asian capital markets, especially emerging Asian markets, involves a number of considerations in addition to the normal risks associated with investments in securities. These include fluctuations in exchange rates, settlement procedures, the potential price volatility and lack of liquidity in the stock exchanges on which some of the Master Fund's investment may be made, the existence, in some jurisdictions, of restrictions on investment and the repatriation of dividends and the proceeds of sale, the possibility of political instability and/or changes in fiscal and other laws and regulations which may affect the Master Fund and its investments.

The Master Fund is exposed to market risk on its investment portfolio. There are no investment restrictions in place which limit the maximum exposure to any security of the same issuer, but it is the Master Fund's practice to limit exposure to 15% at the time of purchase, of the net asset value of the Master Fund.

The Master Fund's market price risk is managed through diversification of the investment portfolio to different industry sectors. The Master Fund invests primarily in the Thai market and is therefore exposed to factors affecting the Thai economy.

##### (b) 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 Master Fund.

Financial assets which potentially subject the Master Fund to concentrations of credit risk consist principally of equities, deposits with brokers, bank balances, amounts due from brokers and other receivables. The exposure to credit risk in respect of equities is controlled by the limits set by the Master Fund on its investment holding in a single issuer. Substantially all of the assets and liabilities of the Master Fund are held with the Prime Broker and the Master Fund therefore has a significant credit risk exposure to the Prime Broker.

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.

The bank balances and deposits with brokers are placed with reputable financial institutions.

## THAI FOCUSED EQUITY U.S. FEEDER FUND LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

31ST December 2006

#### 7 Financial instruments (Continued)

##### (c) Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. A summary of the Master Fund's net assets by major currency, other than United States dollars, is shown below:

	2006 US\$ equivalent	2005 US\$ equivalent
Net Thai Baht Exposure	<u>204,830,287</u>	<u>137,703,771</u>

##### Forward foreign exchange contracts

The Master Fund generally enters into forward foreign exchange contracts in order to manage its net exposure to fluctuations in foreign currency exchange rates. Investments in companies that conduct US dollar based businesses, such as shipping and energy are not currency hedged, but investments in companies that have baht income and baht expenses typically are hedged back into US dollars.

Outstanding forward foreign exchange contracts as at 31st December 2006 were as follows:

Contracts to deliver	In exchange for	Settlement date
Open contracts:		
<u>THB2,842,875,000</u>	<u>US\$75,000,000</u>	8th January 2007

Outstanding forward foreign exchange contracts as at 31st December 2005 were as follows:

Contracts to deliver	In exchange for	Settlement date
Open contracts:		
<u>THB3,371,840,000</u>	<u>US\$82,000,000</u>	5th July 2006
Closed but not yet settled contracts:		
<u>THB2,462,400,000</u>	<u>US\$60,000,000</u>	15th February 2006

##### d) Liquidity risk

The Master Fund invests in the Thai market which is not as liquid as developed markets. To manage this risk, the Master Fund monitors the liquidity of its portfolio so that most of its investments can be disposed of within the redemption periods set (note 6).

## THAI FOCUSED EQUITY U.S. FEEDER FUND LIMITED

### NOTES TO THE FINANCIAL STATEMENTS 31ST December 2006

#### 7 Financial instruments (Continued)

##### (e) Interest rate risk

The Master Fund is exposed to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on bank deposits and reverse repurchase agreement entered. The Master Fund also utilises reverse repurchase agreement to manage its surplus cash.

##### (f) Off-balance sheet risks

The Master Fund enters into investment transactions which may represent both off-balance sheet market risks and off-balance sheet credit risks.

An off-balance sheet market risk exists when the maximum potential loss on a particular investment is greater than the value of such investment, as reflected on the Master Fund's balance sheet.

Off-balance sheet credit risk exists, among other situations, when the collateral received by the Master Fund from the counterparty to an agreement with the Master Fund proves to be insufficient to cover the Master Fund's losses resulting from a default by the counterparty of its obligation to perform under the terms of the agreement.

Transactions in the following instruments represent off-balance sheet market and credit risks associated with the Master Fund's current and/or future portfolio.

The Master Fund may sell borrowed securities which are subsequently repurchased and returned to the lender, thereby creating a liability to repurchase the security in the market at prevailing prices. Short selling allows the investor to profit from declines in market prices. The value of such securities sold short is marked to market based on the current value of the underlying security at the date of valuation.

##### (g) Fair value

As at 31st December 2006, in the opinion of the directors, the carrying amounts of investments and payables approximated their fair values.

#### 8 Approval of financial statements

The financial statements were approved by the directors on [ ]