

NOTES TO THE UNAUDITED CONDENSED FINANCIAL STATEMENTS

1. General information

Value Partners China Greenchip Fund Limited (the “Company”) is a close-ended investment company registered with limited liability in the Cayman Islands on 16th January 2002. Its principal investment objective is to achieve medium-term capital growth by means of investing in companies established in Greater China or which derive a majority of their revenue from business related to Greater China, whether in the form of direct investment or trade.

The Company has been listed on The Stock Exchange of Hong Kong Limited on 8th April 2002. The Company will have an initial life of five years from the date shares were placed to investors by the underwriter. Shareholders shall be given the opportunity to vote in general meeting to extend the life of the Company for successive periods of two years each. Upon the expiration of the initial term of five years (or such longer term if the life of the Company is extended in the manner described in this paragraph), the Company will be wound up and dissolved in accordance with the Cayman Islands Companies Law.

2. Basis of preparation of the condensed financial statements

The condensed financial statements are prepared in accordance with International Accounting Standard 34 – “Interim Financial Reporting” as issued by the International Accounting Standards Committee. The condensed financial statements are prepared under the historical cost conventions as modified by the fair valuation of available-for-sale securities. The measurement currency of the Company is Hong Kong dollars reflecting the fact that ordinary shares of the Company are denominated in Hong Kong dollars. These condensed financial statements have not been audited.

3. Significant accounting policies

(a) Investments

The Company adopted International Accounting Standard 39 – “Financial Instruments: Recognition and Measurement” as issued by the International Accounting Standards Committee (“IAS 39”) and classified its investments as available-for-sale securities. 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, are classified as available-for-sale. Management determines the appropriate classification of its investments at the time of purchase and re-evaluates such designation on a regular basis.

All investment securities are initially recognised at cost. For the purpose of preparing the financial statements of the Company, available-for-sale securities are subsequently re-measured at fair value based on their bid prices on the Stock Exchanges. Gains and losses arising from changes in the fair value of available-for-sale securities are recognised in the income statement as they arise.

(a) Investments (*continued*)

However, day to day valuation of quoted or listed investments are made by reference to the closing price, a price which is easily available to the manager and a basis that is provided in the Articles of Association of the Company. A reconciliation of net asset values of investments arrived at through the application between closing price and bid price is disclosed in note 10 on page 13.

All purchases and sales of investment 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 Company commits to purchase or sell the asset. Realised and unrealised gains and losses on investment are calculated on the weighted average cost basis and are dealt with in the income statement.

(b) Income and expenses

All income and expenses are accounted for on an accrual basis. Dividend income is recognised on the date it is declared payable by the investee company and when the Company's right to receive payment is established. Dividends received are included separately in dividend income and are stated after deduction of withholding taxes.

(c) Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars 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 loss. The cost of investments, and income and expenses are translated into Hong Kong dollars based on exchange rates ruling on the dates of the transactions.

Realised and unrealised gains and losses on translation of foreign currencies are dealt with in the income statement.

(d) Cash and cash equivalents

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

4. Taxation

No provision for Cayman Islands profits tax has been made as a tax exemption certificate has been granted to the Company by the Governor-in-Council of the Cayman Islands which is effective for a period of twenty years.

Hong Kong profits tax has been provided at the rate of 16% on the estimated assessable profit for the period.

Value Partners China Greenchip Fund Limited

(Incorporated as an exempted company in Cayman Islands with limited liability)

5. Fees

(a) Management fee

The Manager, Value Partners Limited, is entitled to receive management fee of 1.5% per annum of the net asset value of the Company. Management fee is calculated and accrued daily and payable monthly in arrears.

(b) Performance fee

The Manager is entitled to receive performance fee which represents 12% of the net increase between the net asset value per share as at each relevant performance fee valuation day and the higher of (i) net asset value per share on the day dealing in shares of the Company on The Stock Exchange of Hong Kong Limited commences and (ii) the highest net asset value per share as at the valuation point for any preceding relevant performance period in relation to which a performance fee was last calculated and paid. Performance fee shall be deemed to accrue daily throughout the relevant performance period and is payable yearly in arrears.

(c) Underwriting fee

The underwriter is entitled to receive underwriting fee which represents 3% of the net increase between the net asset value per share as at each relevant underwriting fee valuation day and the higher of (i) net asset value per share on the day dealing in shares of the Company on The Stock Exchange of Hong Kong Limited commences and (ii) the highest net asset value per share as at the valuation point for any preceding relevant underwriting fee period in relation to which an underwriting fee was last calculated and paid. The underwriting fee is calculated and accrued daily and payable yearly in arrears.

6. Share capital

Unaudited
30th June 2002
HK\$

Authorised:

200,000,000 ordinary shares of HK\$0.1 each	<u>20,000,000</u>
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Issued and fully paid:

30,700,000 ordinary shares of HK\$0.1 each	<u>3,070,000</u>
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The Company was incorporated on 16th January 2002 with an authorised share capital of HK\$20,000,000 divided into 200,000,000 ordinary shares of HK\$0.10 each. One share was allotted, issued and fully paid at par on that date. On 7th March 2002, the share was transferred to Value Partners Limited at HK\$10.

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6. Share capital (continued)

On 22nd March 2002, 199,999 ordinary shares of HK\$0.10 with issue price of HK\$10 each were allotted and issued to Value Partners Limited.

On 2nd April 2002, 30,500,000 ordinary shares of HK\$0.10 with issue price of HK\$10 each were allotted and issued by way of private placement to professional, institutional and selected investors.

7. Earnings per share

Earnings per share is calculated based on the net income for the period of HK\$8,116,328 and the weighted average number of ordinary shares in issue during the period, being 15,370,732.

8. Related party transactions

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 Company is managed by Value Partners Limited, a company incorporated in British Virgin Islands. Under the terms of the Investment Management Agreement dated 28th March 2002, the Company appointed Value Partners Limited to provide investment management services to the Company.

During the period performance fee and management fee of HK\$1,772,004 and HK\$1,103,054 respectively were payable or paid to Value Partners Limited, the Manager by the Company. Moreover, the Manager holds 200,000 ordinary shares of the Company and has two common directors with the Company.

The details of calculation of management fee and performance fee are disclosed in note 5 on page 11.

9. Soft commission arrangements

The Manager has entered into soft commission arrangements with brokers under which certain goods and services used to support investment decision making are received by the Manager. The goods and services must be of demonstrable benefit to the Company and may include research and advisory services; economic and political analysis; portfolio analysis, including valuation and performance measurement; market analysis, data and quotation services, computer hardware and software incidental to the above goods and services; clearing and custodian services and investment-related publications.

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10. Reconciliation of net asset values

The rules on valuation of investments contained in the Articles and which are applied in the day to day valuation of the Company provide that investments quoted or listed on any securities market will be made by reference to the closing price, a price which is easily available to the Manager. International Accounting Standards however require such investments to be fair valued in the financial statements by reference to the bid price. The net asset values arrived at through the application of two valuation methods as at 30th June 2002 were stated as follows:

	<i>HK\$</i>
Net asset value by applying closing price as fair value of investments	<u>311,771,357</u>
Net asset value by applying bid price as fair value of investments	<u>308,912,801</u>