

NOTES TO THE 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 of the Placing. 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 unaudited condensed financial statements are prepared in accordance with International Accounting Standard 34 “Interim financial reporting” as issued by the International Accounting Standards Committee.

These condensed financial statements should be read in conjunction with the 2003 annual financial statements.

The accounting policies and methods of computation used in the preparation of these condensed financial statements are consistent with those used in the annual financial statements for the year ended 31st December 2003.

The condensed financial statements are prepared under the historical cost convention as modified by the fair valuation of available-for-sale securities and derivative financial instruments.

3. Significant accounting policies

(a) *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, exchange rates or equity prices 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 available-for-sale securities are initially recognised at cost (which includes transaction costs). For the purpose of preparing the condensed financial statements of the Company, available-for-sale securities are subsequently re-measured at fair value based on their bid prices on the relevant Stock Exchanges and other prices quoted in the over-the-counter markets or by market makers if appropriate. Fair value for unlisted equity securities are estimated using techniques that are well established in financial markets including discounted cash flow analysis and reference to the current market value of another instrument that is substantially the same. Gains and losses arising from changes in the fair value of available-for-sale securities are recognised in the condensed income statement as they arise.

3. Significant accounting policies (Continued)

(a) Available-for-sale securities (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 assets between investments arrived at through the application of closing price and bid price is disclosed in note 11 to the condensed financial statements.

All purchases and sales of available-for-sale 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 assets. Realised and unrealised gains and losses on available-for-sale securities are calculated on the weighted average cost basis and are dealt with in the condensed income statement.

(b) Derivative financial instruments

Derivative financial instruments including call options and index futures are categorised as held-for-trading. All derivative financial instruments are initially recognised at cost and subsequently re-measured at fair value based on quoted market prices. All derivative financial instruments are carried in assets when amounts are receivable by the Company and in liabilities when amounts are payable by the Company. Changes in the fair value of derivative financial instruments are included in the condensed income statement.

(c) Income

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.

Interest income is recognised in the condensed income statement for all interest bearing instruments on an accruals basis.

Income received is accounted for after deduction of withholding tax where applicable.

(d) Expenses

All major expenses are accounted for on an accruals basis.

(e) Foreign currency translation

The measurement currency for the Company is Hong Kong dollar, reflecting the fact that the shares and the majority of the assets are denominated in Hong Kong dollars.

Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at exchange rates ruling at the period end date. Realised and unrealised gains and losses on foreign currency transactions are charged or credited to the condensed income statement as net exchange gain or loss except when they relate to available-for-sale securities and derivative financial instruments where such amounts are included within realised and unrealised gains and losses on available-for-sale securities and derivative financial instruments.

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3. Significant accounting policies (Continued)

(f) Cash and cash equivalents

Cash comprises 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.

(g) Segmental information

In the opinion of the Manager, all activities of the Company are in the single business of investment activities conducted mainly in Hong Kong. Geographical information is provided in the investment portfolio.

(h) 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.

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 from 22nd January 2002.

Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profit for the period.

There was no material unprovided deferred taxation for the period.

5. Fees

(a) Management fee

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

(b) Performance fee

The Manager is entitled to receive a performance fee which represents 12% of the net increase between the net asset value per share as at the last business day of each relevant financial year end ("performance fee valuation day") and the higher of (i) the 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 value for the net asset value per share as at performance fee valuation day for any preceding relevant financial period on which a performance fee was last calculated and paid. The performance fee is calculated and accrued daily and payable yearly in arrears.

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5. Fees (Continued)

(c) Underwriting fee

The Underwriter, CLSA Limited, is entitled to receive an underwriting fee which represents 3% of the net increase between the net asset value per share as at the last business day of each relevant financial year end between 2002 and 2006 (both years inclusive) (“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 value for the net asset value per share as at underwriting fee valuation day for any preceding relevant financial period on 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 2004 HK\$	(Audited) 31st December 2003 HK\$
<i>Authorised:</i>		
200,000,000 ordinary shares of HK\$0.1 each	<u>20,000,000</u>	<u>20,000,000</u>
<i>Issued and fully paid:</i>		
30,700,000 ordinary shares of HK\$0.1 each	<u>3,070,000</u>	<u>3,070,000</u>

7. Net asset value per share and basic earnings per share

The net asset value per share is calculated by dividing the net assets included in the balance sheet of HK\$524,229,752 (31st December 2003: HK\$566,720,839) by the number of ordinary shares in issue at the period end, being 30,700,000 (31st December 2003: 30,700,000).

The basic earnings per share is calculated based on the net loss for the period of HK\$42,491,087 (2003: net income for the period of HK\$85,139,228) and the weighted average number of ordinary shares in issue during the period, being 30,700,000 (2003: 30,700,000).

8. Related party transactions

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 in return for a management fee and a performance fee.

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8. Related party transactions (Continued)

During the period, a management fee and a performance fee of HK\$4,381,817 (2003: HK\$2,640,490) and HK\$nil (2003: HK\$12,199,198) respectively were payable to the Manager by the Company. Moreover, the Manager holds 200,000 ordinary shares of the Company (31st December 2003: 200,000) and has 2 common directors with the Company (31st December 2003: 2) as at 30th June 2004.

The details of calculation of management fee and performance fee are disclosed in note 5 to the condensed financial statements.

9. Commitments

As at 30th June 2004, the Company has committed to purchase 425,000 junior preference shares and senior preference shares each of Shui On Land with a total amount of US\$850,000.

10. 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.

11. Reconciliation of net assets

The rules on valuation of investments contained in the Articles of Association of the Company 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 Financial Reporting Standards however require such investments to be fair valued in the financial statements by reference to the bid price. The net assets arrived at through the application of two valuation methods were stated as follows:

	(Unaudited) 30th June 2004 HK\$	(Audited) 31st December 2003 HK\$
Net assets for pricing purpose	533,530,733	570,598,664
Adjustment on valuation of investments by applying bid price as fair value of investments	(1,778,871)	(3,877,825)
Adjustment on accruals for taxation	(7,522,110)	-
Net assets as shown in the condensed balance sheet	<u>524,229,752</u>	<u>566,720,839</u>