NOTES TO THE 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 5 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 2 years each. Upon the expiration of the initial term of 5 years (or such longer term if the life of the Company is extended in the manner described above), the Company will be wound up and dissolved in accordance with the Cayman Islands Companies Law.

2. Principal accounting policies

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

(a) Basis of preparation

The financial statements are prepared in accordance with International Financial Reporting Standards. They have been prepared under the historical cost convention as modified by the fair valuation of available-for-sale securities and derivative financial instruments.

(b) 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 income statement for all interest bearing instruments on an accruals basis.

(c) Expenses

All major expenses are accounted for on an accruals basis.

NOTES TO THE FINANCIAL STATEMENTS

2. Principal accounting policies *(Continued)*

(d) 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 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). The 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 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.

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 financial statements.

All purchase and sale 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 recognised in the income statement as they arise.

(e) Derivative financial instruments

Derivative financial instruments including options 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 income statement.

NOTES TO THE FINANCIAL STATEMENTS

2. Principal accounting policies *(Continued)*

(f) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at exchange rates ruling at the year end date. Realised and unrealised gains and losses on foreign currency transactions are charged or credited to the income statement as exchange gains or losses 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.

(g) 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.

(h) 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.

(i) 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.

3. Fees

(a) Management fee

The Manager, Value Partners Limited, is entitled to receive a management fee which represents 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 amount by which the net asset value per share as at 31st December of each year (the "performance fee valuation day") exceeds 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 commenced and (ii) the highest value for the net asset value per share as at the performance fee valuation day for any preceding year in which a performance fee was last calculated and paid. The performance fee is calculated and accrued daily and payable yearly in arrears.

NOTES TO THE FINANCIAL STATEMENTS

3. Fees *(Continued)*

(c) Underwriting fee

The Underwriter, CLSA Limited, is entitled to receive an underwriting fee which represents 3% of the amount by which the net asset value per share as at 31st December of each year from 2002 to 2006 (both years inclusive) (the "underwriting fee valuation day") exceeds 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 commenced and (ii) the highest value for the net asset value per share as at the underwriting fee valuation day for any preceding year in which an underwriting fee was last calculated and paid. The underwriting fee is calculated and accrued daily and payable yearly in arrears.

4. Directors' and senior management's emoluments

The aggregate amounts of emoluments payable to directors of the Company during the year are as follows:

	2004 *HK$*	**2003** *HK$*
Fee	341,858	320,000

Directors' fee disclosed above includes HK$80,000 (2003: HK$80,000) payable to a non-executive director and HK$181,858 (2003: HK$160,000) payable to independent non-executive directors.

The emoluments of the directors fell within the following bands:

	2004 **Number of directors**	**2003** **Number of directors**
Emolument bands		
Nil - HK$1,000,000	10	8

The 5 individuals whose emoluments were the highest in the Company for both years were also directors and their emoluments are reflected in the analysis presented above.

NOTES TO THE FINANCIAL STATEMENTS

5. Taxation

The Company has obtained from the Governor-in-Council of the Cayman Islands an undertaking that, in accordance with Section 6 of the Tax Concession Law (1999 Revised), for a period of 20 years from 22nd January 2002, no laws of the Cayman Islands imposing any tax on profits, income, gains or appreciation will apply to the Company.

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profit for the year.

The amount of taxation charged to the income statement represents:

	2004	**2003**
	HK$	*HK$*
Hong Kong profits tax	–	56,087,920

The taxation on the Company's net income before taxation differs from the theoretical amount that would arise using the tax rate applicable to the income of the Company as follows:

	2004	**2003**
	HK$	*HK$*
Net income before taxation	11,970,615	317,790,440
Calculated at a tax rate of 17.5% (2003: 17.5%)	2,094,858	55,613,327
Income not subject to taxation	(2,485,120)	(2,873,226)
Expenses not deductible for taxation purposes	233,948	428,997
Tax losses for which no deferred tax asset was recognised	156,314	–
Over-provision	–	2,918,822
Taxation	–	56,087,920

There was no material unprovided deferred taxation for the year.

NOTES TO THE FINANCIAL STATEMENTS

6. Investments

The breakdown of available-for-sale securities and derivative financial instruments are as follows:

	2004	**2003**
	HK$	*HK$*
Available-for-sale securities		
Equities	470,451,997	576,277,872
Bonds	10,730,000	–
	481,181,997	576,277,872
Derivative financial instruments		
Options	256,741	–

7. Share capital

	2004	**2003**
	HK$	*HK$*
Authorised		
200,000,000 (2003: 200,000,000) ordinary shares of HK$0.1 each	20,000,000	20,000,000
Issued and fully paid		
30,700,000 (2003: 30,700,000) ordinary shares of HK$0.1 each	3,070,000	3,070,000

8. 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$578,691,454 (2003: HK$566,720,839) by the number of ordinary shares in issue at the year end, being 30,700,000 (2003: 30,700,000).

The basic earnings per share is calculated by dividing the net income for the year of HK$11,970,615 (2003: HK$261,702,520) by the weighted average number of ordinary shares in issue during the year, being 30,700,000 (2003: 30,700,000).

NOTES TO THE FINANCIAL STATEMENTS

9. Related party transactions

Pursuant to the Investment Management Agreement dated 28th March 2002, the Company appointed Value Partners Limited as the Manager to provide investment management services to the Company.

During the year, management fee and performance fee of HK$8,645,063 (2003: HK$6,442,234) and HK$1,234,508 (2003: HK$37,142,088) respectively were payable to the Manager. The details of calculation of management fee and performance fee are disclosed in notes 3(a) and 3(b) to the financial statements respectively.

Besides, the Manager held 200,000 (2003: 200,000) ordinary shares of the Company and had 2 (2003: 2) common directors with the Company as at 31st December 2004.

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 valuation of quoted or listed investments 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 closing price and bid price were stated as follows:

	2004	**2003**
	HK$	*HK$*
Net assets for pricing purpose	579,344,048	570,598,664
Adjustment on valuation of investments by applying bid price as fair value of investments	(2,848,460)	(3,877,825)
Adjustment on accruals for taxation	2,195,866	-
Net assets as shown in the balance sheet	578,691,454	566,720,839

NOTES TO THE FINANCIAL STATEMENTS

12. Use of financial instruments

The Company achieves its investment objective through investing in equities, bonds and options and therefore is exposed to market price risk, credit risk, interest rate risk, currency risk and liquidity risk arising from the financial instruments held.

The risks and the respective risk management policies employed by the Company to manage these risks are discussed below:

(a) Market price risk

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

The Company's investment activities expose it to the various types of market risks which are associated with the markets in which it invests and to the extent of the amount invested in equities, bonds and options totaling HK$481,438,738 as at year end (2003: HK$576,277,872).

(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 into with the Company.

Financial assets which potentially subject the Company to concentrations of credit risk consist principally of available-for-sale securities, derivative financial instruments, bank balances and amounts receivable on sale of investments.

The Company limits its exposure to credit risk by transacting the majority of its securities and contractual commitment activities with broker-dealers, banks and regulated exchanges with high credit ratings and that the Company considers to be well established. All transactions in listed securities are settled/paid for upon delivery using approved and reputable brokers. The risk of default is considered minimal since delivery of securities sold is only made when the broker has received payment. In a purchase, payment is made when the securities have been received by the broker. If either party fails to meet its obligation, the trade will fail.

Accordingly, the Company has no significant concentration of credit risk.

NOTES TO THE FINANCIAL STATEMENTS

12. Use of financial instruments *(Continued)*

(c) *Interest rate risk*

The Company is exposed to minimal interest rate risk as the Company invests mainly in equities and only the bank balances and bonds are exposed to interest rate risk which is considered to be minimal.

(d) *Currency risk*

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates.

The Company has no significant currency risk because substantially all assets and liabilities are denominated in Hong Kong dollars.

(e) *Liquidity risk*

Liquidity risk is the risk that an enterprise will encounter difficulty in selling a financial asset quickly at close to its fair value.

The Manager considered that there was no significant liquidity risk on the investment portfolio as at year end (2003: Nil).

(f) *Fair values of financial instruments*

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

13. Commitments

As at 31st December 2004, the Company has commitments contracted but not provided for in the financial statements in respect of the purchase of 318,750 junior preference shares and senior preference shares each of Shui On Land Ltd with a total amount of HK$4,957,964 (2003: Nil).

14. Approval of financial statements

The financial statements were approved by the directors on 22nd March 2005.