

REPORT OF THE DIRECTORS

The directors submit their report together with the audited financial statements for the year ended 31st December 2005.

Principal activities

Value Partners China Greenchip Fund Limited (the “Fund”) 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 through 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 Fund was listed on The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”) on 8th April 2002. The Fund 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 Fund 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 Fund is extended in the manner described above), the Fund will be wound up and dissolved in accordance with the Cayman Islands Companies Law.

Results and appropriations

The results of the Fund for the year are set out in the income statement on page 26.

The directors do not recommend the payment of a dividend.

Share capital

Details of the movements in share capital of the Fund are set out in note 7 to the financial statements.

Pre-emptive rights

There is no provision for pre-emptive rights under the Fund’s Memorandum and Articles of Association and there was no restriction against such rights under the laws of the Cayman Islands.

Financial summary since date of incorporation

A summary of the results and of the assets and liabilities of the Fund since the date of incorporation is set out on page 56.

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Purchase, sale or redemption of securities

On 28th June 2005, the Fund purchased 10,000 shares with a par value of HK\$0.10 each of the Fund at a price of HK\$17.20 per share on the Hong Kong Stock Exchange. On 7th July 2005, the Fund purchased an additional 40,000 shares with a par value of HK\$0.10 each of the Fund at prices ranging from HK\$16.90 per share to HK\$17.00 per share on the Hong Kong Stock Exchange. The purchases involved a total cash outlay of HK\$172,330 and HK\$680,304 respectively. The aggregate prices of the purchased shares were charged to equity. All the purchased shares were cancelled.

Save as disclosed above, the Fund has not purchased or sold any of the Fund's shares during the year ended 31st December 2005 and the Fund has not redeemed any of its shares during the year ended 31st December 2005.

Directors

The directors during the year and up to the date of this report were:

Mr Cheah Cheng Hye

Mr Li Aubrey Kwok Sing

Mr Ng Ka Wai, Eric

Mr Ngan Wai Wah, Franco

Mr Paul Marin Theil

Mr Teng Ngiek Lian

Mr Yeung Kin Sing, William

Mr So Chun Ki Louis (appointed on 22nd March 2005)

Mr Choi Nga Chung, Jacky (resigned on 22nd March 2005)

Mr Li Aubrey Kwok Sing is an independent non-executive director and was appointed to hold office until the next annual general meeting. He is eligible for re-election at that meeting.

Mr Ng Ka Wai, Eric is an independent non-executive director and was appointed to hold office until the next annual general meeting. He is eligible for re-election at that meeting.

Mr Paul Marin Theil is an independent non-executive director and was appointed to hold office until the next annual general meeting. He is eligible for re-election at that meeting.

Mr Yeung Kin Sing, William is a non-executive director and was appointed to hold office until the next annual general meeting. He is eligible for re-election at that meeting.

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Directors (*Continued*)

In accordance with the Fund's Articles of Association, all directors are subject to retirement by rotation once every 3 years. Save as disclosed above, all other directors continue in office.

Directors' service contracts

None of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Fund which is not determinable within 1 year without payment of compensation, other than statutory compensation.

Directors' interests in contracts

No contracts of significance in relation to the Fund's business to which the Fund was a party and in which a director of the Fund had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Biographical details of directors and senior management

Brief biographical details of directors and senior management as at the date of this report are stated below.

Executive directors

Mr Cheah Cheng Hye, aged 52, was appointed as an executive director of the Fund on 16th January 2002. Mr Cheah has over 20 years of experience in the finance and investment industry. He co-founded Value Partners Limited and is currently Chief Investment Officer of that company. At Value Partners Limited, Mr Cheah has been in charge of a China/Hong Kong equities portfolio that has won several performance awards since its launch in 1993. Mr Cheah has succeeded in expanding Value Partners Limited's funds under management from less than US\$5 million in 1993 to more than US\$2.4 billion by the end of December 2005. In 1989, he also founded Morgan Grenfell's Hong Kong equities research department. Prior to that, he worked as a financial journalist for The Asian Wall Street Journal and the Far Eastern Economic Review Limited for 11 years.

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Biographical details of directors and senior management *(Continued)*

Executive directors (Continued)

Mr Teng Ngiek Lian, aged 56, was appointed as an executive director of the Fund on 19th March 2002. Mr Teng has been investing in Asian equity markets in the last 20 years. He is the founder, Chief Executive Officer and Chief Investment Officer of Target Asset Management Pte Limited, the investment manager of Target Asia Fund Limited, which invests primarily in listed Asian equities. Mr Teng has held a number of senior management positions in Singapore, including as the Managing Director of Morgan Grenfell Investment Management (Asia) Limited Singapore, UBS Asset Management Pte Ltd and Joint Chief Operating Officer of WBL Corporation, a company listed in Singapore. He was a council member of the Singapore Society of Financial Analysts and an affiliate of AIMR for 10 years. Mr Teng is also a Chartered Certified Accountant (UK) and a Chartered Secretary (UK).

Mr Ngan Wai Wah, Franco, aged 32, was appointed as an executive director of the Fund on 26th March 2004. Mr Ngan is currently the Managing Director of Value Partners Limited. Prior to joining Value Partners Limited in 2004, he worked for Manulife Asset Management (Hong Kong) Limited since 1997. Before joining Manulife, Mr Ngan worked at Altamira Investment Services Inc (Canada). Mr Ngan is a graduate from the University of British Columbia majoring in Finance and is a Chartered Financial Analyst charterholder.

Mr So Chun Ki Louis, aged 30, was appointed as an executive director of the Fund on 22nd March 2005. Mr So joined Value Partners Limited in 1999 and is currently a fund manager of that company. Mr So graduated from the University of Auckland with a degree in Commerce and from the University of New South Wales with a Masters degree in Commerce.

Non-executive director

Mr Yeung Kin Sing, William, aged 43, was appointed as a non-executive director and a member of the Audit Committee of the Fund on 27th August 2002. Mr Yeung is the Executive Deputy General Manager at China Euro Securities Limited (CESL), the first joint venture securities company in China after its accession into WTO. The foreign shareholder of CESL is CLSA Asia Pacific Markets. Mr Yeung has previously been a practising solicitor in Hong Kong focusing on corporate finance and capital markets transactions. He was also a practising accountant in the UK focusing on audit and taxation services for the insurance and entertainment industries, covering many multi-national corporations. Mr Yeung holds a BSc degree in Computing and Accountancy from the University of East Anglia in the UK, is a qualified solicitor in Hong Kong and England and Wales as well as a chartered accountant in England and Wales. He is also a chartered tax advisor in the UK.

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Biographical details of directors and senior management (*Continued*)

Independent non-executive directors

Mr Li Aubrey Kwok Sing, aged 56, was appointed as an independent non-executive director and a member of the Audit Committee of the Fund on 6th March 2002. He is a director of Management Capital Limited, a Hong Kong-based financial advisory and direct investment firm, and has over 30 years of experience in merchant banking and commercial banking. He is also a non-executive director of ABC Communications (Holdings) Limited, The Bank of East Asia, Limited, Cafe de Coral Holdings Limited, China Everbright International Limited, CNPC (Hong Kong) Limited, Kowloon Development Company Limited and Pokfulam Development Company Limited; and the non-executive Chairman of Atlantis Asian Recovery Fund. Mr Li has a Master of Business Administration from Columbia University and a Bachelor of Science in Civil Engineering from Brown University.

Mr Paul Marin Theil, aged 52, was appointed as an independent non-executive director and a member of the Audit Committee of the Fund on 21st October 2002. Mr Theil has over 15 years of experience in the finance and investment industry. He is a partner in the private equity investment activities of an international investment bank. Mr Theil holds JD and MBA degrees from the Harvard Law and Business Schools and BA and MA degrees from Yale University.

Mr Ng Ka Wai, Eric, aged 40, was appointed as an independent non-executive director and a member of the Audit Committee of the Fund on 23rd September 2004. Mr Ng is currently the Managing Director of Convoy Asset Management Limited. Prior to joining the Convoy Group, he was the Vice President and Chief Marketing Officer of Skandia-BSAM Life Insurance Company based in Beijing, and was the Chief Operating Officer of Manulife Asset Management (Hong Kong) Limited before that. Mr Ng had also served as a director of Manulife Global Funds, a public company listed in Luxembourg. Mr Ng holds a MBA in Total Quality Management from Newport University, USA.

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Directors' and chief executives' interests and/or short positions in the shares of the Fund or any associated corporation

As at 31st December 2005, the interests and short positions of each director and chief executive in the shares of the Fund and its associated corporations, as notified to the Fund and the Hong Kong Stock Exchange or as recorded in the register required to be kept by the Fund under Section 352 of Part XV of the Hong Kong Securities and Futures Ordinance (the "SFO") or as notified to the Fund and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers were as follows:

Shares with a par value of HK\$0.10 each

Name of director	Position held	Number of shares on which interested	Capacity	% of holdings
Mr Cheah Cheng Hye	Long position	200,000 (<i>note 1</i>)	Interests of controlled corporation	0.65

Note 1: These shares are registered in the name of Value Partners Limited, the Manager of the Fund. Value Partners Limited is 31.58% beneficially owned by Mr Cheah. Mr Cheah is therefore deemed to be interested in these shares by virtue of the SFO.

Save as disclosed above, none of the directors or chief executives had any interests or short positions in the shares of the Fund or its associated corporation that would be required to be notified to the Fund or the Hong Kong Stock Exchange or required to be recorded in the register required to be kept under the SFO.

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Substantial shareholders' interests and/or short positions in the shares of the Fund

The register of substantial shareholders required to be kept under Section 336 of Part XV of the SFO shows that as at 31st December 2005, the Fund had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the Fund's issued share capital. These interests are in addition to those disclosed above in respect of the directors and chief executives.

Shares with a par value of HK\$0.10 each

Name of shareholder	Position held	Number of shares on which interested	Capacity	% of holdings
QVT Financial GP LLC	Long position	9,090,000 (<i>note 1</i>)	Interests of controlled corporation	29.66
QVT Financial LP	Long position	9,090,000	Investment manager	29.66
QVT Associates GP LLC	Long position	7,754,559 (<i>note 2</i>)	Interests of controlled corporation	25.30
QVT Fund LP	Long position	7,754,559	Beneficial owner	25.30
Deutsche Bank Aktiengesellschaft	Long position	6,940,000 (<i>note 3</i>)	Security interest	22.64
Stichting Shell Pensioenfond	Long position	4,000,000	Beneficial owner	13.05
Sarasin Investmentfonds SICAV-Emergingsar/ Emergingsar-Asia	Long position	3,069,500	Beneficial owner	10.01

Note 1: QVT Financial GP LLC is deemed to be interested in the shares through its controlled corporation, QVT Financial LP.

Note 2: QVT Associates GP LLC is deemed to be interested in the shares through its controlled corporation, QVT Fund LP.

Note 3: Deutsche Bank Aktiengesellschaft is deemed to be interested in the shares through its controlled corporation, Deutsche Bank AG London Branch, which has a security interest in the shares.

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Management contracts

There exist agreements for investment management services, and custodian, transaction handling and fund services services, in respect of which Value Partners Limited and Standard Chartered Bank (Hong Kong) Limited provide services to the Fund respectively and under which fees are payable. These agreements can be terminated by either party in accordance with the provisions of the Investment Management Agreement dated 28th March 2002 (as amended) and the Agreement for Custody Services (including the Fund Services Service Memorandum) dated 28th March 2002 (as amended) respectively.

Connected transactions

Certain related party transactions as disclosed in note 8 to the financial statements also constituted connected transactions under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), and are required to be disclosed in accordance with Chapter 14A of the Listing Rules. The following transactions between certain connected parties and the Fund have been entered into and are ongoing for which relevant announcements, if necessary, have been made by the Fund in accordance with the requirements of the Listing Rules.

Pursuant to the Investment Management Agreement dated 28th March 2002 (as amended), the Fund appointed Value Partners Limited as the Manager to provide investment management services to the Fund. During the year, management fee and performance fee paid and payable to the Manager was HK\$22,468,276 (2004: HK\$9,879,571).

Pursuant to the Agreement for Custody Services (including the Fund Services Service Memorandum) dated 28th March 2002 (as amended), the Fund appointed Standard Chartered Bank (Hong Kong) Limited as the Custodian to provide custodian, transaction handling and fund services services to the Fund. During the year, custodian, transaction handling and fund services fees paid and payable to the Custodian was HK\$1,036,703 (2004: HK\$1,045,821).

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Connected transactions (*Continued*)

The aforesaid continuing connected transactions have been reviewed by the independent non-executive directors of the Fund. The independent non-executive directors confirmed that the aforesaid connected transactions were entered into (i) by the Fund in the ordinary and usual course of its business; (ii) on normal commercial terms and on arm's length basis; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Fund as a whole. The independent non-executive directors also confirmed that the aggregate value of the annual management fee and performance fee paid and payable by the Fund to the Manager and the aggregate value of the annual custodian, transaction handling and fund services fees paid and payable by the Fund to the Custodian did not exceed their respective caps.

Based on the work performed, the auditors of the Fund have confirmed that the aforesaid continuing connected transactions (i) have been approved by the Board of Directors of the Fund; (ii) have been entered into in accordance with the terms of the relevant agreements governing the transactions; and (iii) have not exceed the caps allowed by the Hong Kong Stock Exchange.

Sufficiency of public float

Based on the information that is publicly available to and within the knowledge of the directors, it is confirmed that there is sufficient public float of the Fund's issued shares at 20th April 2006.

Auditors

The financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

For and on behalf of the Board

So Chun Ki Louis

Chairman

Hong Kong, 20th April 2006