

## CHAIRMAN'S STATEMENT

The directors are pleased to present the interim report and condensed interim financial information of Value Partners China Greenchip Fund Limited (the "Fund") for the 6 months ended 30th June 2006. The condensed income statement, statement of changes in equity and cash flow statement for the 6 months ended 30th June 2006, and the condensed balance sheet as at 30th June 2006, all of which are unaudited, along with selected explanatory notes, are set out on pages 10 to 26 of this report.

### Management discussion and analysis

The Fund returned 18.2% net in first-half 2006, a better result than the 17.1% achieved for all of 2005. For comparison, the Hang Seng Total Return Index and MSCI China Free Total Return Index were up 11.6% and 23.9% respectively in the first 6 months of 2006.

On the back of the region's strong stock-market rally in the past few quarters, we have become more vigilant and unloaded selected holdings where valuation appear diminished. Nonetheless, our key holdings continued to perform sturdily, with Vtech Holdings Ltd and Road King Infrastructure Ltd climbing 52.8% and 58% respectively in first-half 2006. Currently, our biggest investments include the following sectors: China's fast-expanding private enterprises; companies newly privatized by the state; businesses that benefit from a rising Renminbi and/or rising consumer spending; enterprises in rural and the interior part of China; exporters with global leadership in their niche; infrastructural companies with good cash flows; and an eclectic collection of China-related special situation stocks.

To our expectation, the stock market has become more volatile into 2006 on renewed concern over higher inflation and interest rates worldwide. At this stage, it is important to avoid getting distracted by a very volatile market and stick to our core competence: bottom-up stock-picking, based on company visits and original research. To do this, Value Partners Limited now has far more resources than in the past, with 54 people working in the firm, including 18 investment professionals carrying out an estimated 1,500 company visits a year, across the Chinese mainland and in other parts of Asia as well.

Excessive liquidity kept China's economy growing at a rapid pace, despite another round of administrative measures in the second quarter. If the problem lingers on, the Chinese government may take further steps, including raising interest rates and allowing the Renminbi to rise higher and faster. Then again, the big picture has not really changed: Beijing's biggest concerns are creating urban employment, reducing rural poverty and maintaining social stability, so it will do everything it can to keep growth healthy, but with more emphasis on "quality" growth than before.

## **CHAIRMAN'S STATEMENT** *(Continued)*

Longer term, China's rising wealth has to be matched by rising consumer spending. The average Chinese household saves a lot because it feels insecure, lacking confidence in the country's education, health-care and welfare systems, so measures to bring improvements should gradually encourage consumers to spend more. Our portfolio composition implies that if the Chinese consumer stays healthy, the Fund's investments should remain fundamentally sound.

### **Liquidity and financial resources**

As at 30th June 2006, the Fund had bank balances of HK\$85,393,620 and had no borrowing. The Board of Directors believes that the Fund has sufficient financial resources to satisfy its commitments and working capital requirements.

### **Capital structure of the Fund**

Details of movements in the share capital of the Fund during the period are set out in note 9 to the condensed interim financial information.

### **Purchase, sale or redemption of shares**

The Fund has not purchased, sold or redeemed any of its shares during the 6 months ended 30th June 2006.

### **Dividend**

The Board of Directors does not recommend the payment of interim dividend.

# Value Partners China Greenchip Fund Limited

(A Cayman Islands exempted limited liability company)

## CHAIRMAN'S STATEMENT (Continued)

### Top 10 financial assets at fair value through profit or loss

Name of investee company	Holdings	Cost HK\$	Fair value HK\$	Dividends received HK\$	Dividends earned HK\$	% of net assets
Road King Infrastructure Ltd	3,713,000	12,185,497	32,860,050	965,380	965,380	4.11
Vtech Holdings Ltd	745,000	4,544,912	30,060,750	–	–	3.76
China Shenhua Energy Co Ltd						
– H shares	1,970,500	16,226,938	28,079,625	237,494	237,494	3.51
China Resources Land Ltd	6,208,000	11,594,992	26,228,800	194,898	194,898	3.28
NWS Holdings Ltd	1,929,798	8,847,084	25,955,783	–	–	3.24
Great Wall Motor Co Ltd						
– H shares	5,891,500	16,735,400	24,744,300	569,944	569,944	3.09
Heng Tai Consumables Group Ltd	23,143,400	21,856,785	21,523,362	–	–	2.69
Dongfeng Motor Group Co Ltd						
– H shares	5,546,000	10,235,048	19,965,600	–	–	2.50
China Green (Holdings) Ltd	5,733,000	10,522,222	19,062,225	217,854	217,854	2.38
GZI Transport Ltd	5,660,000	13,796,494	18,112,000	283,000	283,000	2.26
		<u>126,545,372</u>	<u>246,592,495</u>	<u>2,468,570</u>	<u>2,468,570</u>	<u>30.82</u>

# Value Partners China Greenchip Fund Limited

(A Cayman Islands exempted limited liability company)

## CHAIRMAN'S STATEMENT (Continued)

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

As at 30th June 2006, 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 Stock Exchange of Hong Kong Limited (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 (Note 1)	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 32.77% beneficially owned by Mr Cheah. Mr Cheah is therefore deemed to be interested in these shares by virtue of the SFO.

## CHAIRMAN'S STATEMENT (Continued)

### 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 30th June 2006, 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.

## **CHAIRMAN'S STATEMENT** *(Continued)*

### **Exposure to fluctuations in exchange rates and related hedges**

The Fund's assets and liabilities are primarily denominated in Hong Kong and United States dollars. The Fund has no significant exposure to foreign exchange fluctuations.

### **Compliance with the Code on Corporate Governance Practices**

None of the directors of the Fund is aware of any information which would indicate that the Fund is not, or was not, in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") at any time during the 6 months ended 30th June 2006, except that the Fund does not have a chief executive officer position because the nature of the Fund is a closed-ended investment company, therefore day-to-day management is delegated to the Manager.

### **Compliance with the Model Code for Securities Transactions by Directors of Listed Issuers**

The Fund has adopted Appendix 10 of the Listing Rules on the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"). All directors have confirmed, following specific inquiry made by the Fund, that they have complied with the required standards set out in the Model Code during the period.

### **Audit Committee**

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Fund and discussed internal controls and financial reporting matters including a review of the unaudited condensed interim financial information for the 6 months ended 30th June 2006 with directors.

## CHAIRMAN'S STATEMENT *(Continued)*

### Reconciliation of net assets

The rules on valuation of investments contained in the Articles of Association of the Fund and which are applied in the valuation of the Fund 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. IFRS however require such investments to be fair valued in the financial statements by reference to the bid price for long positions and the ask price for short positions. The net assets arrived at through the application of closing price and bid/ask price were stated as follows:

	<b>30th June 2006</b>
	<i>HK\$</i>
<b>Net assets for pricing purpose</b>	804,280,554
Adjustment on valuation of listed financial assets	
at fair value through profit or loss by applying bid	
price as the fair value	(5,691,866)
Adjustment on valuation of unlisted or unquoted financial assets	
at fair value through profit or loss from cost to fair value	4,834,171
Adjustment on accruals for taxation	(3,401,785)
<b>Total assets less liabilities as shown in the condensed balance sheet</b>	<u><u>800,021,074</u></u>

For and on behalf of the Board

**So Chun Ki Louis**

*Chairman*

Hong Kong, 18th September 2006