

## NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

### 1 General information

Value Partners China Greenchip Fund Limited (the “Fund”) is a closed-ended investment company registered with limited liability in the Cayman Islands on 16th January 2002.

The Fund’s 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 has an initial life of 5 years from the date of the Placing and it will expire in April 2007. In the Annual General Meeting held on 30th May 2006, an ordinary resolution was passed to authorise the Board of Directors to commence the proceedings to convert the Fund into an open-ended mutual fund corporation and to seek application for authorisation from the Securities and Futures Commission of Hong Kong (the “SFC”) as an open-ended mutual fund corporation under the Code on Unit Trusts and Mutual Funds established by the SFC. In the event that the above conversion and application cannot be completed on or before the expiration of the initial term of 5 years, the life of the Fund shall be extended for a further 2 years.

The Fund’s investment activities are managed by Value Partners Limited (the “Manager”). The Fund’s administration is delegated to Standard Chartered Bank (Hong Kong) Limited. The registered office of the Fund is P.O. Box 309, Ugland House, George Town, Grand Cayman, Cayman Islands, British West Indies.

### 2 Basis of preparation

This condensed interim financial information for the half-year ended 30th June 2006 has been prepared in accordance with IAS 34 “Interim financial reporting”. The interim condensed financial report should be read in conjunction with the annual financial statements for the year ended 31st December 2005.

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31st December 2005.

The following amendments to standards are mandatory for financial year ending 31st December 2006:

- Amendment to IAS 39, Amendment “The fair value option”, effective for annual periods beginning on or after 1st January 2006. This amendment does not have any impact on the classification and valuation of the Fund’s financial instruments classified as at fair value through profit or loss prior to 1st January 2006 as the Fund is able to comply with the amended criteria for the designation of financial instruments at fair value through profit or loss.

## NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

### 2 Basis of preparation *(Continued)*

The following new standard has been issued but is not effective for 2006 and has not been early adopted.

- IFRS 7 “Financial instruments: Disclosures”, effective for annual periods beginning on or after 1st January 2007. The Fund assessed the impact of IFRS 7 and the amendment to IAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and capital disclosures required by the amendment to IAS 1. The Fund will apply IFRS 7 and the amendment to IAS 1 from annual periods beginning 1st January 2007.

The condensed balance sheet presents assets and liabilities in increasing order of liquidity and does not distinguish between current and non-current items. All the Fund’s assets and liabilities are held for the purpose of being traded or are expected to be realised within 1 year.

No additional disclosure is included in relation to segment reporting, as the Fund’s activities are limited to a single business segment. The Fund is organised into a single business segment, focusing on achieving 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.

### 3 Significant accounting policies

#### *(a) Financial assets and liabilities at fair value through profit or loss*

This category has 2 sub-categories: financial assets and liabilities held for trading, and those designated by management as fair value through profit or loss at inception. Financial assets or liabilities held for trading are acquired or incurred principally for the purpose of selling or repurchasing in the short term. Derivatives are also categorised as held for trading, as the Fund does not designate any derivatives as hedges in a hedging relationship.

The Fund makes short sales in which a borrowed security is sold in anticipation of a decline in the market value of that security. Short sales are financial liabilities at fair value through profit or loss.

Regular-way purchases and sales of investments are recognised on trade date - the date on which the Fund commits to purchase or sell the asset. Investments are initially recognised at fair value, and transaction costs for all financial assets and liabilities carried at fair value through profit or loss are expensed as incurred. Investments are derecognised when the rights to receive cash flows from the investments have expired or the Fund has transferred substantially all risks and rewards of ownership.

Gains and losses arising from changes in the fair value of financial assets and liabilities at fair value through profit or loss are included in the condensed income statement in the period in which they arise. Interest income on debt instruments is calculated using the effective interest method and presented separately in the condensed income statement.

## NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

### 3 Significant accounting policies (Continued)

#### (b) Derivative financial instruments

Derivatives are recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and option pricing models, as appropriate. All derivatives are carried as assets when fair value is positive, and as liabilities when fair value is negative.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received). Subsequent changes in the fair value of any derivative financial instrument are recognised immediately in the condensed income statement.

#### (c) Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Fund is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The Fund may from time to time invest in financial instruments that are not traded in an active market. The fair value of such instruments is determined by using valuation techniques. The Fund uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Valuation techniques used include the use of comparable recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

#### (d) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the condensed balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

#### (e) Amounts receivable/payable on sale/purchase of financial assets at fair value through profit or loss

Amounts receivable/payable on sale/purchase of financial assets at fair value through profit or loss represent receivables for securities sold and payables for securities purchased that have been contracted for but not yet delivered by the end of the period.

## NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

### 3 Significant accounting policies (Continued)

(f) *Share capital*

Shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds, net of tax.

When the Fund repurchases its own shares, the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity.

(g) *Income*

Dividend income is recognised when the right to receive payment is established.

Interest income is recognised in the condensed income statement for all debt instruments using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts throughout the expected life of the financial instrument, or a shorter period where appropriate, to the net carrying amount of the financial asset. When calculating the effective interest rate, the Fund estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

(h) *Expenses*

Expenses are accounted for on an accruals basis.

## NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

### 3 Significant accounting policies (Continued)

#### (i) Foreign currency translation

##### (i) Functional and presentation currency

Items included in the Fund's condensed interim financial information are measured using the currency of the primary economic environment in which it operates (the "functional currency"). This is the Hong Kong dollar, which reflects the Fund's primary activity of investing in Hong Kong securities and derivatives and the fact that performance measurement and reporting to the shareholders as well as settlement of the majority of fees and expenses are carried out in Hong Kong dollars.

The Fund has adopted the Hong Kong dollar as its presentation currency, and the condensed interim financial information is presented in Hong Kong dollars, as the Fund is listed in Hong Kong.

##### (ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the condensed income statement. Translation differences on non-monetary items held at fair value through profit or loss are reported as part of the fair value gain or loss.

#### (j) Taxation

The Fund currently incurs withholding tax imposed by certain countries on investment income. Such income is recorded gross of withholding tax in the condensed income statement.

#### (k) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of 3 months or less, and bank overdrafts.

### 4 Financial risk management

The Fund achieves its investment objective through investing in listed and unlisted equity securities, debt securities, futures and warrants 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 Fund to manage these risks are discussed below.

## NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

### 4 Financial risk management (Continued)

#### (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 Fund'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 listed and unlisted equity securities, debt securities and warrants totaling HK\$768,596,891 as at 30th June 2006 (31st December 2005: HK\$622,949,549).

In addition, the Fund have sold securities of an issuer short. Short sales made by the Fund involve certain risks and special considerations. Possible losses from short sales differ from losses that could be incurred from a purchase of a security, because losses from short sales may be unlimited, whereas losses from purchases cannot exceed the total amount invested. The total amount of securities in short positions was HK\$2,191,726 as at 30th June 2006 (31st December 2005: Nil).

#### (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 Fund. Financial assets which potentially subject the Fund to concentrations of credit risk consist principally of financial assets at fair value through profit or loss and bank balances.

The Fund may invest in debt instruments which are unrated or rated with low credit ratings. These securities are subject to greater risk of loss of principal and interest than securities with higher credit ratings. The Fund may also invest in emerging markets where the clearing, settlement and registration systems available to effect trades are less developed than those in more mature markets. These can result in delays and other difficulties in settling trades and registering transfers of securities.

In addition, assets deposited as margin with executing brokers need not be segregated from their own assets. Such assets may therefore be available to the creditors of such persons in the event of their insolvency.

The Fund 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 Fund 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, there is no significant concentration of credit risk.

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### 4 Financial risk management (Continued)

#### (c) Interest rate risk

The Fund is exposed to minimal interest rate risk as the Fund invests mainly in equity securities and its financial liabilities are non-interest bearing. The Fund's bank balances and debt securities are exposed to interest rate risk which is considered to be minimal as their contractual repricing or maturity dates (whichever dates are earlier) fall mainly within 1 year after the balance sheet date.

#### (d) Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Fund has no significant currency risk because the majority of the assets and liabilities are denominated in Hong Kong dollars (the Fund's functional and presentation currency) and United States dollars which are linked to Hong Kong dollars.

As at 30th June, total assets net of liabilities of the Fund held in different currencies were as follows:

	(Unaudited) 30th June 2006		(Audited) 31st December 2005	
	Amount	HK\$ equivalent	Amount	HK\$ equivalent
Australian dollar	–	–	2,027,422	11,531,165
British pound	327,492	4,704,586	–	–
Hong Kong dollar	623,214,537	623,214,537	534,655,022	534,655,022
New Taiwan dollar	83,028,501	19,918,537	11,870,508	2,802,627
Singapore dollar	6,991,426	34,339,088	4,909,786	22,893,842
United States dollar	15,172,438	117,844,326	13,541,281	104,989,820
		<u>800,021,074</u>		<u>676,872,476</u>

#### (e) Liquidity risk

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

The markets in which the Fund invests may be relatively illiquid and the liquidity of these markets generally has fluctuated substantially over time. Investment of the Fund's assets in relatively illiquid securities may restrict the ability of the Fund to dispose of its investments at a price and time that it wishes. The risk of illiquidity also arises in the case of over-the-counter transactions. There is no regulated market for such transactions, and the prices will be established solely by dealers in those transactions. The Manager considered that there is no significant liquidity risk on the investment portfolio of the Fund as the majority of the assets of the Fund are invested in liquid investments which are considered to be readily realisable.

## NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

### 5 Critical accounting estimates and judgements in applying accounting policies

The Fund makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial period. Estimates are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Fund may from time to time hold financial instruments that are not quoted in active markets, such as unlisted and over-the-counter financial instruments. Fair values of such instruments are determined by using valuation techniques which are validated and periodically reviewed to ensure that outputs are reliable.

Models use observable data to the extent practicable. However, areas such as credit risk (both own and counterparty), volatilities and correlations require the Fund to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

### 6 Financial assets at fair value through profit or loss

	<b>(Unaudited)</b>	<b>(Audited)</b>
	<b>30th June</b>	<b>31st December</b>
	<b>2006</b>	<b>2005</b>
	<i>HK\$</i>	<i>HK\$</i>
<b>Held for trading</b>		
Call options	–	–
Warrants	2,190,570	2,147,677
	2,190,570	2,147,677
<b>Total held for trading</b>	<b>2,190,570</b>	<b>2,147,677</b>
<b>Designated as fair value through profit or loss</b>		
Listed equity securities	675,627,492	570,251,714
Unlisted equity securities	26,729,407	22,960,028
Debt securities	64,049,422	27,590,130
	766,406,321	620,801,872
<b>Total designated as fair value through profit or loss</b>	<b>766,406,321</b>	<b>620,801,872</b>
<b>Total financial assets at fair value through profit or loss</b>	<b>768,596,891</b>	<b>622,949,549</b>



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### 7 Financial liabilities at fair value through profit or loss

	(Unaudited) 30th June 2006 HK\$	(Audited) 31st December 2005 HK\$
<b>Held for trading</b>		
Futures	<u>2,191,726</u>	<u>–</u>

### 8 Derivative financial instruments

The Fund's derivative financial instruments at period-end are detailed below:

#### At 30th June 2006

	Notional amount	Fair values	
		Assets HK\$	Liabilities HK\$
Futures	HK\$40,719,300	–	2,191,726
Warrants	HK\$579,544 US\$288,084	41,081 2,149,489	– –
		<u>2,190,570</u>	<u>2,191,726</u>

#### At 31st December 2005

	Notional amount	Fair values	
		Assets HK\$	Liabilities HK\$
Call options	US\$17,283,100	–	–
Warrants	US\$288,084	2,147,677	–
		<u>2,147,677</u>	<u>–</u>

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### 9 Share capital

	Number of shares	Share capital HK\$	Total HK\$
<b>(Unaudited)</b>			
<b>At 1st January 2005</b>	30,700,000	3,070,000	3,070,000
Repurchase of own shares	(10,000)	(1,000)	(1,000)
<b>At 30th June 2005</b>	<b>30,690,000</b>	<b>3,069,000</b>	<b>3,069,000</b>
<b>(Unaudited)</b>			
<b>At 1st January 2006 and 30th June 2006</b>	<b>30,650,000</b>	<b>3,065,000</b>	<b>3,065,000</b>

The total authorised number of shares is 200,000,000 shares (2005: 200,000,000 shares) with a par value of HK\$0.10 per share (2005: HK\$0.10 per share). All issued shares are fully paid.

In 2005, the Fund acquired 10,000 of its own shares through purchases on the Hong Kong Stock Exchange on 28th June 2005. The total amount paid to acquire the shares was HK\$172,330 and has been deducted from equity. The shares were cancelled upon the repurchase.

### 10 Related party transactions

The following is a summary of significant related party transactions. All such transactions were entered into in the ordinary course of business and on normal commercial terms.

#### (a) Management fee

The Manager is entitled to receive a management fee which represents 1.5% per annum of the net asset value of the Fund. The management fee is calculated and accrued daily and payable monthly in arrears.

The management fee payable as at 30th June 2006 was HK\$1,015,527 (31st December 2005: HK\$832,577).

#### (b) Performance fee

The Manager is entitled to receive a performance fee which represents 12% of the product of the average number of shares in issue during the period and the amount by which the net asset value per share as at 31st December of each year (the “performance fee valuation day”) before accrual of performance fee and underwriting fee exceeds the higher of (i) the net asset value per share on the day dealing in shares of the Fund on the Hong Kong Stock Exchange 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 (after payment of the performance fee and underwriting fee). The performance fee is calculated and accrued daily and payable yearly in arrears.

The performance fee payable as at 30th June 2006 was HK\$18,706,676 (31st December 2005: HK\$13,194,921).

## NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

### 10 Related party transactions (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 31 December of each year from 2002 to 2006 (both years inclusive) (the “underwriting fee valuation day”) before accrual of performance fee and underwriting fee exceeds the higher of (i) the net asset value per share on the day dealing in shares of the Fund on the Hong Kong Stock Exchange 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 (after payment of the performance fee and underwriting fee). The underwriting fee is calculated and accrued daily and payable yearly in arrears.

The underwriting fee payable as at 30th June 2006 was HK\$4,676,669 (31st December 2005: HK\$3,298,730).

#### (d) Custodian, transaction handling and fund services fees

The Custodian, Standard Chartered Bank (Hong Kong) Limited, is entitled to receive a custodian fee which represents a variable fee ranging from 0.04% per annum to 0.08% per annum of the value of securities under custody. The custodian fee is calculated, accrued and payable monthly in arrears.

The Custodian is also entitled to receive a transaction handling fee which represents a variable fee ranging from US\$30 to US\$80 per transaction.

In addition, the Custodian is entitled to receive a fund services fee which represents 0.06% per annum of the net asset value of the Fund for daily and monthly reporting, subject to a minimum of US\$15,000 per annum, and US\$900 per valuation for interim and year-end reporting. The fund services fee is calculated, accrued and payable monthly in arrears.

The custodian, transaction handling and fund services fees payable as at 30th June 2006 was HK\$82,193 (31st December 2005: HK\$115,828).

#### (e) Directors' and senior management's emoluments

Key management compensation amounted to HK\$297,945 (2005: HK\$220,214).

#### (f) Manager's holding in the Fund and common directors

The Manager held 200,000 shares of the Fund and had 2 common directors with the Fund as at 30th June 2006 (31st December 2005: 200,000 shares and 2 common directors).

## NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

### 10 Related party transactions *(Continued)*

(g) *Cross trades with a fund managed by the Manager*

In 2005, the Fund purchased 1,394,500 H shares of Great Wall Motor Company Limited from another fund which is under the Manager's discretionary management at a cost of HK\$4,532,125 which was based on the closing price on the Hong Kong Stock Exchange on the date of the purchase transaction. The purchase decision was in the best interest of the Fund and fell within the investment objective and policies of the Fund. The transaction was executed on arm's length terms at the current market price.

(h) *Transactions in shares of companies with a common director*

(i) As at 30th June 2006, the Fund held 1,110,000 shares of Kowloon Development Company Limited with a total fair value of HK\$14,430,000 (31st December 2005: 1,110,000 shares with a total fair value of HK\$9,102,000). Mr Li Aubrey Kwok Sing, a director of the Fund, is also a director of Kowloon Development Company Limited.

(ii) During the period ended 30th June 2006, the Fund transacted in shares of Ocean Grand Chemicals Holdings Limited and realised a loss of HK\$155,831 in these transactions (2005: Nil). As at 31st December 2005, the Fund held 544,000 shares of Ocean Grand Chemicals Holdings Limited with a total fair value of HK\$522,240. Mr V-Nee Yeh, a director of the Manager, was also a director of Ocean Grand Chemicals Holdings Limited. Mr Yeh resigned as director of Ocean Grand Chemicals Holdings Limited on 26th July 2006.

(iii) As at 30th June 2006, the Fund held 3,750,000 shares and HK\$8,750,000 of convertible note of Coral Waters (Barbados) SRL with a total fair value of HK\$3,750,000 and HK\$8,750,000 respectively (31st December 2005: Nil). Mr Ho Man Kei, Norman, a director of the Manager, is also a director of Coral Waters (Barbados) SRL.

### 11 Taxation

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

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profit for the period.

## NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION

### 11 Taxation (Continued)

The amount of taxation charged to the condensed income statement represents:

	(Unaudited)	
	2006	2005
	HK\$	HK\$
Hong Kong profits tax	<u>24,260,797</u>	<u>2,128,260</u>

### 12 Basic earnings per share and net asset value per share

The basic earnings per share is calculated by dividing the profit for the period of HK\$123,148,598 (2005: HK\$10,677,759) by the weighted average number of shares in issue during the period, being 30,650,000 (2005: 30,699,834).

The net asset value per share is calculated by dividing the net assets included in the condensed balance sheet of HK\$800,021,074 (2005: HK\$676,872,476) by the number of shares in issue at 30th June 2006, being 30,650,000 (31st December 2005: 30,650,000). Net asset value per share was HK\$26.10 as at 30th June 2006 (31st December 2005: HK\$22.08).

### 13 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 Fund 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.