

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 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. Principal accounting policies

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

(a) *Basis of presentation*

The financial statements are prepared in accordance with International Financial Reporting Standards. The financial statements have been prepared under the historical cost convention as modified by the fair valuation of investment securities.

(b) *Investment securities*

All investment securities are initially recognised at cost. For the purpose of preparing the financial statements of the Company, investment 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. Gains and losses arising from changes in the fair value of investment securities are recognised in the income statement as they arise.

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 asset values of investment securities arrived at through the application between closing price and bid price is disclosed in note 10 to the financial statements.

2. Principal accounting policies *(Continued)*

(b) Investment securities (Continued)

All purchases and sales of investment 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 investment securities are calculated on the weighted average cost basis and are dealt with in the income statement.

(c) Income and expenses

All income and expenses are accounted for on an accrual basis. 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. Dividends received are included separately in dividend income and are stated after deduction of withholding taxes.

(d) Translation of foreign currencies

Transactions in foreign currencies during the year are translated into Hong Kong dollars (HK\$) at exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into HK\$ at exchange rates ruling at year end. Translation differences arising therefrom are dealt with in the income statement.

(e) 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.

(f) 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.

(g) 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.

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3. 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.

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profit for the year. In 2003, the government enacted a change in the profits tax rate from 16% to 17.5% for the fiscal year 2003/2004.

There was no material unprovided deferred taxation for the year.

4. Share capital

| | 2003 | 2002 |
|--|-------------------|-------------------|
| | <i>HK\$</i> | <i>HK\$</i> |
| <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> |
| | 2003 | 2002 |
| Number of ordinary shares of HK\$0.1 each at the beginning of the year/period | 30,700,000 | – |
| Ordinary shares issued and fully paid | <u>–</u> | <u>30,700,000</u> |
| Number of ordinary shares of HK\$0.1 each at the end of the year/period | <u>30,700,000</u> | <u>30,700,000</u> |

5. Net asset value per ordinary share and basic earnings per ordinary share

The net asset value per ordinary share is calculated by dividing the net assets included in the balance sheet of HK\$566,720,839 (2002: HK\$305,018,319) by the number of ordinary shares in issue at the year end, being 30,700,000 (2002: 30,700,000).

The basic earnings per ordinary share is calculated by dividing net income of HK\$261,702,520 (2002: HK\$4,318,784) by the weighted average number of ordinary shares outstanding during the year, being 30,700,000 (2002: 23,517,143).

6. Fees

(i) *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.

(ii) *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 year on which a performance fee was last calculated and paid. The performance fee is calculated and accrued daily and payable yearly in arrears.

(iii) *Underwriting fee*

The underwriter 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 year on which an underwriting fee was last calculated and paid. The underwriting fee is calculated and accrued daily and payable yearly in arrears.

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7. 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 performance fee and a management fee.

During the year, a performance fee and a management fee of HK\$37,142,088 (2002: HK\$941,262) and HK\$6,442,234 (2002: HK\$3,415,789) respectively were paid or payable to Value Partners Limited, the Manager by the Company. Moreover, the Manager holds 200,000 (2002: 200,000) ordinary shares of the Company and has two common directors with the Company.

The details of calculation of management fee and performance fee are disclosed in note 6 to the financial statements.

8. Directors' emoluments

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

| | 2003 | 2002 |
|------|----------------|----------------|
| | <i>HK\$</i> | <i>HK\$</i> |
| Fees | <u>320,000</u> | <u>226,411</u> |

Directors' fees disclosed above include HK\$80,000 (2002: HK\$58,740) paid to non-executive directors and HK\$160,000 (2002: HK\$108,932) paid to the independent non-executive directors.

The emoluments of the directors fell within the following bands:

| | 2003 | 2002 |
|-------------------------|----------------------------|----------------------------|
| Emolument bands | Number of directors | Number of directors |
| HK\$nil – HK\$1,000,000 | <u>7</u> | <u>6</u> |

9. 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.

10. Reconciliation of net asset value

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 asset values arrived at through the application of two valuation methods as at 31st December 2003 was stated as follows:

| | 2003 <i>HK\$</i> | 2002 <i>HK\$</i> |
|---|---------------------|---------------------|
| Net asset value by applying closing price as fair value of investments | <u>570,598,664</u> | <u>307,509,937</u> |
| Net asset value by applying bid price as fair value of investments | <u>566,720,839</u> | <u>305,018,319</u> |

11. Financial instruments

(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, debt securities, futures and options totaling HK\$576,277,872 as at year end (2002: HK\$291,209,244).

Details of the market exposures as at 31st December 2003 are disclosed in the investment portfolio.

(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 securities, bank balances and amounts due from brokers.

The Company limits its exposure to credit risk by transacting the majority of its securities and contractual commitment activity with broker-dealers, banks and regulated exchanges with high credit ratings 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 once the broker has received payment. On a purchase, payment is made once the securities have been received by the broker. If either party fails to meet their obligation, the trade will fail.

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

(c) *Interest rate risk*

The Company is exposed to a minimal interest rate risk as the Company invests mainly on equity securities and only the bank balances and debt securities are exposed to interest rate risk which is considered to be minimal.

11. Financial instruments *(Continued)*

(d) Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to the 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 no significant liquidity risk on the investment securities as at 31st December 2003.

(f) Fair values of financial instruments

The Company's carrying amounts of investment securities, other assets and liabilities approximate to their fair values. Other assets and liabilities include bank balances and other receivables which normally settled within a few days, and accruals and other payables which are realised or settled within a short period of time.