

# VALUE PARTNERS CHINA GREENCHIP FUND LIMITED

(Incorporated as an exempted company in the  
Cayman Islands with limited liability)  
(Stock Code: 1186)

## ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31 DECEMBER 2004

### RESULTS

The Board of Directors (the “Board”) of Value Partners China Greenchip Fund Limited (the “Company”) is pleased to announce the audited financial statements of the Company for the year ended 31 December 2004.

### INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2004

	Note	2004 HK\$	2003 HK\$
Income			
Dividends		13,056,353	16,169,164
Interest on investments		80,970	774,020
Interest on bank deposits		1,144,331	249,271
Other income		432,051	2,604
		<u>14,713,705</u>	<u>17,195,059</u>
Expenses			
Management fee	3	8,645,063	6,442,234
Performance fee	4	1,234,508	37,142,088
Underwriting fee	5	308,627	9,285,522
Custodian, transaction handling and fund services fee		1,045,821	904,627
Directors’ fee		320,000	320,000
Auditors’ remuneration		231,366	214,278
Legal and professional fees		258,144	1,011,377
Other operating expenses		550,701	510,473
		<u>12,594,230</u>	<u>55,830,599</u>
Net income/(loss) before investment and exchange gains/losses		<u>2,119,475</u>	<u>(38,635,540)</u>
Investment and exchange gains/losses			
Net realised gain on sale of available-for-sale securities		117,693,703	160,435,453
Net realised gain on sale of derivative financial instruments		1,375,126	—

	<i>Note</i>	<b>2004</b> <b>HK\$</b>	2003 HK\$
Net change in unrealised appreciation/ depreciation in value of available-for-sale securities		<b>(107,789,729)</b>	196,297,769
Net change in unrealised appreciation/ depreciation in value of derivative financial instruments		<b>(840,549)</b>	–
Net exchange loss		<b>(587,411)</b>	(307,242)
		<u><b>9,851,140</b></u>	<u>356,425,980</u>
Net income before taxation		<b>11,970,615</b>	317,790,440
Taxation	6	–	(56,087,920)
Net income for the year		<b>11,970,615</b>	261,702,520
Dividend	7	–	–
Income retained for the year		<u><b>11,970,615</b></u>	<u>261,702,520</u>
Basic earnings per share	8	<u><b>0.39</b></u>	<u>8.52</u>

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Basis of preparation of the financial statements

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.

### 2. Income and expenses

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.

All major expenses are accounted for on an accruals basis.

### 3. 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.

### 4. 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 31 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.

## **5. 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”) 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.

## **6. 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.

There was no material unprovided deferred taxation for the year.

## **7. Dividends**

The directors do not recommend the payment of a dividend.

## **8. Earnings per share**

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).

## **MANAGEMENT DISCUSSION AND ANALYSIS**

The environment for value-investing in China-related stocks was particularly tough in 2004. Investor fears that austerity measures might be needed to cool down the economy depressed sentiment in a market still consolidating after the 2003 bull run.

Indeed, Chinese stockmarkets were among the world’s worst performers last year. Indices fell across the board: A shares dropped 15% in Shanghai and 16% in Shenzhen. B shares fared even worse, plummeting by 28% in Shanghai and 19% in Shenzhen. The MSCI China Free Index held up better, ending the year virtually unchanged.

Meanwhile, liquidity flooded the Hong Kong market on speculation of an appreciation of the Chinese currency, the Renminbi, and chased up the valuations of large-cap stocks.

Against this backdrop, Value Partners China Greenchip Fund Limited (the “Company”) held steady, notching up a return of 2.1%. Cash levels in the Company were relatively high in the second half of the year - ranging from 14% to 29% of the portfolio - as we took a conservative and defensive stance in our stock picks.

Our major sector allocation was in small-cap industrial export stocks. We also invested in the agricultural stocks, a sector which is receiving many support measures by the Central government and where we believe might be hidden values.

Our portfolio was also helped by our exposure to Hong Kong-listed retail stocks, which benefited from the increased number of visitors from the Chinese mainland and from consumer spending recovering from the downturn during SARS in 2003. These stocks in our portfolio posted returns varying from 60% to 290% in 2004.

Our mandate is to seek out value in smaller companies (including unlisted companies) which are under-researched or overlooked by institutional investors. Our aim is to achieve an attractive reward over the long term, regardless of short-term fluctuations in the marketplace.

We expect our markets to continue to be choppy and volatile in 2005. Caution will be our watchword. Cash levels are likely to remain high, so that we will be well-positioned to take advantage of any market setback, while relying on good stock picks to make some profits even during this waiting period.

The overall approach will be defensive as we apply our hallmark strategy: careful bottom-up stock-picking based on a value discipline and a contrarian approach.

Since inception on 8 April 2002 the Company posted a return of 92.4% compared with 32.7% for the Hang Seng Index and 59.6% for the MSCI China Free Index.

As mentioned in the 2003 annual report of the Company, in view of the substantial profits tax provision being provided on the balance sheet (2004: HK\$56.9 million), the Company has engaged a professional tax advisory firm to apply for a profits tax exemption under the Hong Kong Inland Revenue Ordinance. If the Company can satisfy the requirements of the Inland Revenue Ordinance, the Company might qualify for a profits tax exemption. However, the possible outcome is still uncertain at this stage.

## **LIQUIDITY AND FINANCIAL RESOURCES**

As at 31 December 2004, the Company had bank balances of HK\$156,237,859 and had no borrowing. The Board of Directors believes that the Company has sufficient financial resources to satisfy its commitments and working capital requirements.

## **PURCHASE, SALE OR REDEMPTION OF SECURITIES**

The Company has not purchased, sold or redeemed any of its own shares during the year.

## **COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES**

Throughout the year, the Company has complied with the Code of Best Practice 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") which were then in force.

The Company has received, from each of the independent non-executive directors, an annual confirmation of their independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors are independent.

### **AUDIT COMMITTEE**

The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to “A Guide for the Formation of an Audit Committee” published by the Hong Kong Institute of Certified Public Accountants.

The Audit Committee provides an important link between the Board and the Company’s auditors in matters coming within the scope of the audit. It also reviews the effectiveness of both the external and internal audit and of internal controls and risk evaluation. The Audit Committee comprises three independent non-executive directors, namely Mr Li Kwok Sing Aubrey, Mr Ng Ka Wai and Mr Paul Marin Theil and one non-executive director, Mr Yeung Kin Sing. 2 meetings were held during the current financial year.

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Company and discussed internal controls and financial reporting matters including a review of the financial statements for the year.

### **DISCLOSURE OF INFORMATION ON THE STOCK EXCHANGE’S WEBSITE**

All the information required by paragraphs 45(1) to 45(3) of Appendix 16 to the Listing Rules in force prior to 31 March 2004, which will remain applicable to results announcement in respect of accounting periods commencing before 1 July 2004 under the transitional arrangement, will be published on The Stock Exchange of Hong Kong Limited’s website in due course.

On behalf of the Board  
**So Chun Ki Louis**  
*Chairman*

Hong Kong, 22 March 2005

*As at the date of this announcement, the executive directors of the company are Mr. Cheah Cheng Hye, Mr. Teng Ngiek Lian, Mr. Ngan Wai Wah and Mr. So Chun Ki Louis, the non-executive director is Mr. Yeung Kin Sing and the independent non-executive directors are Mr. Li Aubrey Kwok Sing, Mr. Paul Marin Theil and Mr. Ng Ka Wai.*

Please also refer to the published version of this announcement in The Standard.