

## 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 as we took a conservative and defensive stance in our stock picks, ranging from 14% to 29% of the portfolio.

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 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.

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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 8th 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 Hong Kong 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 31st 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.

### **Capital structure of the Company**

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

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

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

# Value Partners China Greenchip Fund Limited

(Incorporated as an exempted company in the Cayman Islands with limited liability)

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### Top ten available-for-sale securities

Name of investee company	Nature of business	Holdings	Market value HK\$	Dividends received HK\$	Dividends earned HK\$	% of net assets
Petrochina Co Ltd – H shares	Oil & gas extraction	8,070,000	33,288,750	529,765	529,765	5.74
NWS Holdings Ltd	Transportation equipment	2,346,000	26,979,000	919,200	919,200	4.66
Chaoda Modern Agriculture (Holdings) Ltd	Food and beverage	7,321,700	20,866,845	762,819	585,736	3.61
Road King Infrastructure Ltd	Transport service	3,713,000	20,050,200	965,380	965,380	3.46
Chow Sang Sang Holdings International Ltd	Manufacturing	3,432,000	14,843,400	308,880	308,880	2.56
Sau San Tong Holdings (Cayman Islands) Ltd	Manufacturing	16,550,000	13,074,500	413,020	413,020	2.26
JIC Technology Co Ltd	Electrical appliance	14,668,000	12,614,480	–	–	2.18
China Insurance International Holdings Co Ltd – H shares	Insurance	3,818,000	12,122,150	32,640	32,640	2.09
Pacific Andes International Holdings Ltd	Wholesale trade	9,832,000	12,093,360	481,768	481,768	2.09
Heng Tai Consumables Group Ltd	Food and beverage	8,191,000	11,631,220	81,910	81,910	2.01
			<u>177,563,905</u>	<u>4,495,382</u>	<u>4,318,299</u>	<u>30.66</u>

On behalf of the Board

**So Chun Ki Louis**

*Chairman*

Hong Kong, 22nd March 2005