

REPORT OF THE DIRECTORS

The directors submit their report together with the audited financial statements for the year ended 31st December 2004.

Principal activities

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 5 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 2 years each. Upon the expiration of the initial term of 5 years (or such longer term if the life of the Company is extended in the manner described above), the Company will be wound up and dissolved in accordance with the Cayman Islands Companies Law.

Results and appropriations

The results of the Company for the year are set out in the income statement on page 15.

The directors do not recommend the payment of a dividend.

Reserves

Movements in the reserves of the Company during the year are set out in the statement of changes in equity on page 17.

Share capital

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

Pre-emptive rights

There is no provision for pre-emptive rights under the Company’s Memorandum and Articles of Association and there was no restriction against such rights under the laws of the Cayman Islands.

REPORT OF THE DIRECTORS

Financial summary since date of incorporation

A summary of the results and of the assets and liabilities of the Company since the date of incorporation is set out on page 34.

Purchase, sale or redemption of securities

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

Directors

The directors during the year and up to the date of this report were:

Mr Cheah Cheng Hye

Mr Li Aubrey Kwok Sing

Mr Paul Marin Theil

Mr Teng Ngiek Lian

Mr Yeung Kin Sing, William

Mr Ngan Wai Wah, Franco (appointed on 26th March 2004)

Mr Ng Ka Wai, Eric (appointed on 23rd September 2004)

Mr So Chun Ki Louis (appointed on 22nd March 2005)

Mr Li Kar Keung, Caspar (resigned on 6th February 2004)

Mr Choi Nga Chung, Jacky (resigned on 22nd March 2005)

Mr Li Aubrey Kwok Sing is an independent non-executive director and was appointed for approximately 3 years' term expiring on 7th April 2005.

Mr Paul Marin Theil is an independent non-executive director and was appointed to hold office until the next annual general meeting. He is eligible for re-election at that meeting.

Mr Yeung Kin Sing, William is a non-executive director and was appointed to hold office until the next annual general meeting. He is eligible for re-election at that meeting.

Mr Ng Ka Wai, Eric is an independent non-executive director and was appointed to hold office until the next annual general meeting. He is eligible for re-election at that meeting.

Regarding other directors, there being no provision in the Company's Articles of Association for retirement by rotation, all other directors continue in office.

REPORT OF THE DIRECTORS

Directors' service contracts

None of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within 1 year without payment of compensation, other than statutory compensation.

Directors' interests in contracts

No contracts of significance in relation to the Company's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Biographical details of directors and senior management

Brief biographical details of directors and senior management as at the date of this report are stated below:

Executive directors

Mr Cheah Cheng Hye, aged 51, was appointed as an executive director of the Company on 16th January 2002. Mr Cheah has over 20 years of experience in the finance and investment industry. He co-founded Value Partners Limited and is currently chief investment officer of that company. At Value Partners Limited, Mr Cheah has been in charge of a China/Hong Kong equities portfolio that has won several performance awards since its launch in 1993. Mr Cheah has succeeded in expanding Value Partners Limited's funds under management from less than US\$5 million in 1993 to more than US\$2.3 billion by the end of December 2004. In 1989, he also founded Morgan Grenfell's Hong Kong equities research department. Prior to that, he worked as a financial journalist for The Asian Wall Street Journal and the Far Eastern Economic Review Limited for 11 years.

Mr Teng Ngiek Lian, aged 55, was appointed as an executive director of the Company on 19th March 2002. Mr Teng has been investing in Asian equity markets in the last 20 years. He is the founder, chief executive officer and chief investment officer of Target Asset Management Pte Limited, the investment advisor of Target Asia Fund, which invests primarily in listed Asian equities. Mr Teng has held a number of senior investment positions in Singapore, including as the Managing Director of Morgan Grenfell Investment Management (Asia) Limited Singapore, UBS Asset Management Pte Ltd and Joint Chief Operating Officer of WBL Corporation, a company listed in Singapore. He was a council member of the Singapore Society of Financial Analysts and an affiliate of AIMR for 10 years. Mr Teng is also a Chartered Certified Accountant (UK) and a Chartered Secretary (UK).

REPORT OF THE DIRECTORS

Biographical details of directors and senior management *(Continued)*

Mr Ngan Wai Wah, Franco, aged 31, was appointed as an executive director of the Company on 26th March 2004. Mr Ngan is currently the Managing Director of Value Partners Limited. Prior to joining Value Partners Limited in 2004, he worked for Manulife Asset Management (Hong Kong) Limited since 1997. Before joining Manulife, Mr Ngan worked at Altamira Investment Services Inc (Canada). Mr Ngan is a graduate from the University of British Columbia majoring in Finance and is a Chartered Financial Analyst charterholder.

Mr So Chun Ki Louis, aged 29, was appointed as an executive director of the Company on 22nd March 2005. Mr So joined Value Partners Limited in 1999 and is currently a fund manager of that company. Mr So graduated from the University of Auckland with a degree in Commerce and from the University of New South Wales with a Masters degree in Commerce.

Non-executive director

Mr Yeung Kin Sing, William, aged 42, was appointed as a non-executive director and a member of the Audit Committee of the Company on 27th August 2002. Mr Yeung is the Executive Deputy General Manager at China Euro Securities Limited (CESL), the first joint venture securities company in China after its accession into WTO. The foreign shareholder of CESL is CLSA Asia Pacific Markets. Mr Yeung has previously been a practising solicitor in Hong Kong focusing on corporate finance and capital markets transactions. He was also a practising accountant in the UK focusing on audit and taxation services for the insurance and entertainment industries, covering many multi-national corporations. Mr Yeung holds a BSc degree in Computing and Accountancy from the University of East Anglia in the UK, is a qualified solicitor in Hong Kong and England and Wales as well as a chartered accountant in England and Wales. He is also a chartered tax advisor in the UK.

Independent non-executive directors

Mr Li Aubrey Kwok Sing, aged 55, was appointed as an independent non-executive director and a member of the Audit Committee of the Company on 6th March 2002. He is a director of Management Capital Limited, a Hong Kong-based financial advisory and direct investment firm, and has over 30 years of experience in merchant banking and commercial banking. He is also a non-executive director of ABC Communications (Holdings) Limited, The Bank of East Asia, Limited, Cafe de Coral Holdings Limited, China Everbright International Limited, CNPC (Hong Kong) Limited and Pokfulam Development Company Limited and non-executive Chairman of Atlantis Asian Recovery Fund plc. Mr Li has a Master of Business Administration from Columbia University and a Bachelor of Science in Civil Engineering from Brown University.

REPORT OF THE DIRECTORS

Biographical details of directors and senior management (Continued)

Mr Paul Marin Theil, aged 51, was appointed as an independent non-executive director and a member of the Audit Committee of the Company on 21st October 2002. Mr Theil has over 15 years of experience in the finance and investment industry. He is a partner in the private equity investment activities of an international investment bank. Mr Theil holds JD and MBA degrees from the Harvard Law and Business Schools and BA and MA degrees from Yale University.

Mr Ng Ka Wai, Eric, aged 39, was appointed as an independent non-executive director and a member of the Audit Committee of the Company on 23rd September 2004. Mr Ng currently acts as Vice President and Chief Marketing Officer of Skandia-BSAM Life Insurance Co Ltd. Prior to joining Skandia Insurance Group, he was the Assistant Vice President and Chief Operating Officer of Manulife Asset Management (Hong Kong) Limited. Mr Ng had also served as a director of Manulife Global Funds, a public company listed in Luxembourg. Mr Ng holds a MBA in Total Quality Management from Newport University, USA.

Directors' interests and short positions in the shares of the Company

As at 31st December 2004, the interests and short positions of each director in the shares of the Company, as recorded in the register maintained by the Company under Section 352 of the Hong Kong Securities and Futures Ordinance (the "SFO") or as notified to the Company were as follows:

| Name of director | Position held | Number of shares on which interested | Capacity | % of holdings |
|--------------------|---------------|---|-------------------------------------|------------------|
| Mr Cheah Cheng Hye | Long position | 200,000 (<i>note 1</i>) | Interests of controlled corporation | 0.65 |

Note 1: These shares are registered in the name of Value Partners Limited, the Manager of the Company. Value Partners Limited is 31.82% beneficially owned by Mr Cheah Cheng Hye. Mr Cheah Cheng Hye is therefore deemed to be interested in these shares by virtue of the SFO.

Value Partners China Greenchip Fund Limited

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

REPORT OF THE DIRECTORS

Substantial shareholders' interests and short positions in the shares of the Company

The register of substantial shareholders maintained under Section 336 of the SFO shows that as at 31st December 2004, the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the directors and chief executives.

| Name of shareholder | Position held | Number of shares on which interested | Capacity | % of holdings |
|---|---------------|---|--|------------------|
| Deutsche Bank Aktiengesellschaft | Long position | 6,170,000 (<i>note 1</i>) | Security interest | 20.10 |
| QVT Financial GP LLC | Long position | 6,170,000 (<i>note 2</i>) | Interests of controlled corporation | 20.10 |
| QVT Financial LP | Long position | 6,170,000 | Investment manager | 20.10 |
| QVT Associates GP LLC | Long position | 4,913,379 (<i>note 3</i>) | Interests of controlled corporation | 16.00 |
| QVT Fund LP | Long position | 4,913,379 | Beneficial owner | 16.00 |
| Stichting Shell Pensioenfonds | Long position | 4,000,000 | Beneficial owner | 13.03 |
| Sarasin Investmentfonds SICAV – Emergingsar/ Emergingsar – Asia | Long position | 3,069,500 | Beneficial owner | 10.00 |
| Stichting Philips Pensioenfonds | Long position | 2,400,000 | Beneficial owner | 7.82 |

Note 1: 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.

Note 2: QVT Financial GP LLC is deemed to be interested in the shares through its controlled corporation, QVT Financial LP.

Note 3: QVT Associates GP LLC is deemed to be interested in the shares through its controlled corporation, QVT Fund LP.

Management contracts

No contracts concerning the management and administrations of the whole or any substantial part of the business of the Company were entered into or existed during the year.

REPORT OF THE DIRECTORS

Connected transactions

Pursuant to the Investment Management Agreement dated 28th March 2002, the Company appointed Value Partners Limited as the Manager to provide investment management services to the Company. Related party transactions, which also constitute connected transactions under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”), required to be disclosed in accordance with Chapter 14 of the Listing Rules prior to 31st March 2004 amendments, are disclosed in note 9 to the financial statements.

Pursuant to the Agreement for Custody Services dated 28th March 2002, the Company appointed Standard Chartered Bank (Hong Kong) Limited as the Custodian to provide custodian, transaction handling and fund services to the Company. During the year, custodian, transaction handling and fund services fee of HK\$1,045,821 (2003: HK\$904,627) was payable to the Custodian.

The Company has applied to The Stock Exchange of Hong Kong Limited for (i) a waiver from strict compliance with Rule 14.26 of the Listing Rules prior to 31st March 2004 amendments for a period of 3 years from the date of appointment of the Manager in respect of the transactions contemplated under the Investment Management Agreement and (ii) a waiver from strict compliance with Rule 14.25 of the Listing Rules prior to 31st March 2004 amendments in respect of the transactions contemplated under the Agreement for Custody Services. Details of these waivers have been set out in the listing document dated 3rd April 2002.

In the opinion of the independent non-executive directors of the Company, the transactions contemplated under the Investment Management Agreement and the Agreement for Custody Services (i) have been entered into by the Company in the ordinary course of its business and are conducted in accordance with the respective terms of the said agreements; (ii) have been entered into on normal commercial terms and on arm’s length basis; (iii) have been entered into on terms that are fair and reasonable so far as the shareholders of the Company are concerned and (iv) the value of the annual management fee and performance fee payable by the Company to the Manager and the annual custodian, transaction handling and fund services fee payable by the Company to the Custodian do not exceed their respective caps.

REPORT OF THE DIRECTORS

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 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 3 independent non-executive directors, namely Mr Li Aubrey Kwok Sing, Mr Ng Ka Wai, Eric and Mr Paul Marin Theil and 1 non-executive director, Mr. Yeung Kin Sing, William. 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.

Auditors

The financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

So Chun Ki Louis

Chairman

Hong Kong, 22nd March 2005