NOTES TO THE CONDENSED 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 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 Company was 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.

The Company's investment activities are managed by Value Partners Limited (the "Manager"). The Company's administration is delegated to Standard Chartered Bank (Hong Kong) Limited.

2 Basis of preparation of the condensed financial statements

The unaudited condensed financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim financial reporting" as issued by the International Accounting Standards Committee.

These condensed financial statements should be read in conjunction with the 2004 annual financial statements.

The accounting policies and methods of computation used in the preparation of these condensed financial statements are consistent with those used in the annual financial statements for the year ended 31st December 2004 except that the Company has changed certain of its accounting policies following its adoption of the new/revised International Financial Reporting Standards (the "IFRS") which are effective for accounting periods commencing on or after 1st January 2005.

These condensed financial statements have been prepared in accordance with those IFRS standards and interpretations issued and effective as at the time of preparing these condensed financial statements. The IFRS standards and interpretations that will be applicable at 31st December 2005, including those that will be applicable on an optional basis, are not known with certainty at the time of preparing these condensed financial statements.

The changes to the Company's accounting policies and the effect of adopting these new policies are set out in note 3 below.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

2 Basis of preparation of the condensed financial statements *(Continued)*

The condensed financial statements are prepared in accordance with IFRS. They have been prepared under the historical cost convention as modified by the revaluation of financial assets at fair value through profit or loss.

The preparation of condensed financial statements in conformity with IFRS requires the use of accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the condensed financial statements, are disclosed in note 6.

3 Changes in accounting policies

In 2005, the Company adopted the new/revised standards of IFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

IAS 1 (revised 2003)	Presentation of financial statements
IAS 8 (revised 2003)	Accounting policies, changes in accounting estimates and errors
IAS 10 (revised 2003)	Events after the balance sheet date
IAS 21 (revised 2003)	The effects of changes in foreign exchange rates
IAS 24 (revised 2003)	Related party disclosures
IAS 32 (revised 2003)	Financial instruments: disclosures and presentation
IAS 33 (revised 2003)	Earnings per share
IAS 39 (revised 2003)	Financial instruments: recognition and measurement

The adoption of IAS 1, 8, 10, 21, 24, 32, 33 and 39 (all revised 2003) resulted in some changes to the Company's accounting policies. In summary:

- IAS 1 (revised 2003) has affected disclosures.
- IAS 8, 10 and 33 (all revised 2003) had no material effect on the Company's policies.
- IAS 21 (revised 2003) had no material effect on the Company's policy. The functional currency of the Company has been re-evaluated based on the guidance to the revised standard and is still considered appropriate.
- IAS 24 (revised 2003) has affected the identification of related parties and some other related-party disclosures.
- IAS 32 (revised 2003) has affected the presentation and disclosures of financial instruments.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

3 Changes in accounting policies *(Continued)*

- IAS 39 (revised 2003) affected the categories of financial assets for recognition and measurement purposes. The Company redesignated its available-for-sale financial instruments as financial assets at fair value through profit or loss on adoption of IAS 39 (revised 2003).

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards. All standards adopted by the Company that are relevant to its operations were applied retrospectively other than IAS 39 (revised 2003) – the derecognition of financial assets is applied prospectively. This standard requires simultaneous adoption with IAS 32 (revised 2003). There was no impact on opening net assets at 1st January 2004 from the adoption of any of the above-mentioned standards.

4 Significant accounting policies

(a) Financial assets at fair value through profit or loss

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

Regular-way purchases and sales of investments are recognised on trade date – the date on which the Company commits to purchase or sell the asset. Investments are initially recognised at fair value, and transaction costs for all financial assets 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 Company has transferred substantially all risks and rewards of ownership.

Gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category 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.

(b) Derivative financial instruments

Derivative financial instruments 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 derivative financial instruments are carried as assets when fair value is positive, and as liabilities when fair value is negative.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

4 Significant accounting policies *(Continued)*

(b) Derivative financial instruments (Continued)

The best evidence of the fair value of a derivative financial instrument 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 (such as publicly traded derivative financial instruments and trading securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Company is the current bid price.

The Company may from time to time invest in financial instruments that are not traded in an active market (for example, in over-the-counter derivative financial instruments). The fair value of such instruments is determined by using valuation techniques. The Company 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 investments

Amounts receivable/payable on sale/purchase of investments 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.

(f) Share capital

Ordinary 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 Company repurchases its own shares, the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company's equity holders.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

4 Significant accounting policies *(Continued)*

(g) Income

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 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 Company estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) 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

All major expenses are accounted for on an accruals basis.

(i) Foreign currency translation

(i) Functional and presentation currency

Items included in the Company's condensed financial statements 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 Company's primary activity of investing in Hong Kong securities and derivative financial instruments.

The Company has adopted the Hong Kong dollar as its presentation currency, as the Company is listed in Hong Kong and it mainly invests in Hong Kong securities and derivative financial instruments.

(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.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

4 Significant accounting policies *(Continued)*

(j) 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.

(k) 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. No additional disclosure is included in relation to segment reporting, as the Company's activities are limited to one main business segment.

(l) 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.

5 Financial risk management

The Company achieves its investment objective through investing in listed and unlisted equities, bonds, call options, 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 Company to manage these risks are discussed below:

(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 listed and unlisted equities, bonds, call options, futures and warrants totaling HK$485,591,636 as at period end (2004: HK$481,438,738).

(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 financial assets at fair value through profit or loss, bank balances and amounts receivable on sale of investments.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

5 Financial risk management *(Continued)*

(b) Credit risk (Continued)

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

(c) Interest rate risk

The Company is exposed to minimal interest rate risk as the Company invests mainly in equities and only the bank balances and bonds are exposed to interest rate risk which is considered to be minimal.

(d) Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates.

The Company has no significant currency risk because substantially all assets and liabilities are denominated in Hong Kong dollars.

As at 30th June, assets net of liabilities held in foreign currencies were as follows:

	(Unaudited) 30th June 2005		**(Audited) 31st December 2004**	
	Amount	*HK$* **equivalent**	**Amount**	*HK$* **equivalent**
Australian dollar	2,653,577	15,722,974	4,255,143	25,724,888
Hong Kong dollar	395,408,979	395,408,979	373,319,668	373,319,668
Singapore dollar	4,433,788	20,426,018	4,447,953	21,132,227
Taiwan dollar	11,024,269	2,710,868	9,934,031	2,416,950
United States dollar	19,930,795	154,928,044	20,071,196	156,097,721
		589,196,883		578,691,454

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

5 Financial risk management *(Continued)*

(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 there was no significant liquidity risk on the investment portfolio as at period end (2004: Nil).

6 Critical accounting estimates, and judgements in applying accounting policies

The Company 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 Company 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 provided by independent parties. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by the Manager. Models are calibrated by back-testing to actual transactions 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 Manager to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

7 Financial assets at fair value through profit or loss

	(Unaudited) 30th June 2005 *HK$*	(Audited) 31st December 2004 *HK$*
Held for trading		
Call options	124,121	256,741
Futures	74,433	–
Warrants	468,003	–
	666,557	256,741
Designated as fair value through profit or loss		
Listed equities	458,345,979	462,188,721
Unlisted equities	13,214,610	8,263,276
Bonds	13,364,490	10,730,000
	484,925,079	481,181,997
	485,591,636	481,438,738
Notional value		
Call options	17,283,100	38,175,800
Futures	43,334,400	–
Warrants	2,752,960	–

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

8 Share capital and share premium

	Number of shares	Share capital *HK$*	Share premium *HK$*	Total *HK$*
(Unaudited)				
At 1st January 2005	30,700,000	3,070,000	297,629,535	300,699,535
Repurchase of ordinary shares	(10,000)	(1,000)	(171,330)	(172,330)
At 30th June 2005	30,690,000	3,069,000	297,458,205	300,527,205
(Audited)				
At 1st January and 31st December 2004	30,700,000	3,070,000	297,629,535	300,699,535

The total authorised number of ordinary shares is 200,000,000 shares (2004: 200,000,000) with a par value of HK$0.10 per share (2004: HK$0.10 per share). All issued shares are fully paid.

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

9 Fees

(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 Company. The management fee is calculated and accrued daily and payable monthly in arrears.

(b) 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 31st 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.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

9 Fees *(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 31st 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.

10 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 Revision), 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% (2004: 17.5%) on the estimated assessable profit for the period.

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

	(Unaudited)	
	2005	**2004**
	HK$	*HK$*
Hong Kong profits tax	2,128,260	–

There was no material unprovided deferred taxation for the period.

Overseas withholding tax was charged on certain dividend and interest income received during the period.

11 Net asset value per share and basic earnings per share

The net asset value per share is calculated by dividing the net assets included in the condensed balance sheet of HK$589,196,883 (2004: HK$578,691,454) by the number of ordinary shares in issue at the period end, being 30,690,000 (2004: 30,700,000).

The basic earnings per share is calculated by dividing the net income for the period of HK$10,677,759 (2004: net loss of HK$42,491,087) by the weighted average number of ordinary shares in issue during the period, being 30,699,834 (2004: 30,700,000).

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

12 Related party transactions

During the period, management fee and performance fee of HK$4,450,944 (2004: HK$4,381,817) and HK$1,416,498 (2004: Nil) respectively were payable to the Manager. The details of calculation of management fee and performance fee are disclosed in notes 9(a) and 9(b) to the condensed financial statements respectively.

Besides, the Manager held 200,000 (2004: 200,000) ordinary shares of the Company and had 2 (2004: 2) common directors with the Company as at 30th June 2005.

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 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.

14 Reconciliation of net assets

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 valuation of quoted or listed investments will be made by reference to the closing price, a price which is easily available to the Manager. IFRS however require such investments to be fair valued in the financial statements by reference to the bid price. The net assets arrived at through the application of closing price and bid price were stated as follows:

	(Unaudited) 30th June 2005 *HK$*	**(Audited) 31st December 2004** *HK$*
Net assets for pricing purpose	589,946,631	579,344,048
Adjustment on valuation of investments by applying bid price as fair value of investments	(2,945,614)	(2,848,460)
Adjustment on accruals for taxation	2,195,866	2,195,866
Net assets as shown in the condensed balance sheet	589,196,883	578,691,454

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

15 Commitments

As at 31st December 2004, the Company had commitments contracted but not provided for in the condensed financial statements in respect of the purchase of 318,750 junior preference shares and senior preference shares each of Shui On Land Ltd with a total amount of HK$4,957,964.

16 Events after the balance sheet date

Subsequent to the balance sheet date, the Company has cleared its tax position with the Inland Revenue Department (the "IRD") for the years of assessment 2002/03 and 2003/04. Accordingly, the Company has written back the tax payable in the condensed balance sheet in respect of these 2 years of assessment on 5th September 2005. Subsequent to 5th September 2005, the Company has also cleared its tax position with the IRD for the year of assessment 2004/05.