

MANAGEMENT DISCUSSION AND ANALYSIS

Value Partners China Greenchip Fund Limited (the “Fund”) gained a net 17.1% in 2005, while the Hang Seng Index and MSCI China Free Index recorded gains of 4.5% and 15.9% respectively. As previously announced in September, we are pleased to report that the tax provision write-back in the amount of HK\$56.9 million contributed to 8.4% of the Fund’s performance in 2005. Since inception, the Fund has returned 125.3%. Over the same period, Hang Seng Index and MSCI China Free Index rose by 38.7% and 85% respectively.

To make our money, we relied on sharp and accurate stock-picking; the Fund as a whole remained defensive, keeping a high level of cash, as we did not want to take too many risks. This blend, combining greater safety with decent profits, describes how we did our job in 2005.

We expect that 2006 is going to be a very volatile year, not only for China-related stocks, which are our focus, but for financial markets around the world.

Volatility aside, the good news is that genuine value-stocks have become easier to find in the China-related markets. Other Asian markets, such as those of Japan, Korea and India, were more popular than those of China, so we now enjoy more overlooked value.

We also have new opportunities arising from Beijing’s drive to sell off state enterprises. This has resulted in a huge number of initial public offerings (IPOs) of Chinese enterprises, with some reasonable-quality assets offered at attractive prices. Because the Shanghai and Shenzhen stock markets have been depressed, these offerings have all taken place on The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”). In 2005, 4 of the world’s 10 largest IPOs took place in Hong Kong, making it the busiest market for new issues, and this strong trend should continue into 2006.

Value Partners’ reputation as a pioneer-investor in China-related equities has also opened new doors. We have become a leading investor in “private chips”, which refer to privately controlled businesses on the Chinese mainland, typically small to mid-sized companies, many of which have used the Hong Kong Stock Exchange to raise funding. This is an emerging asset class that has been largely ignored by institutional funds, for fear of corporate-governance problems. We have moved in aggressively, but as always, we stick to a strict value-investing discipline, driven by bottom-up research, which has kept us in good health.

MANAGEMENT DISCUSSION AND ANALYSIS

Especially in the last quarter of 2005, we have been able to put cash to work fairly quickly, with the cash level down to 8% by year end, much lower than the 10% to 20% cash level seen for much of 2004 and 2005, when we faced a shortage of value opportunities (as stated, we do not compromise on our discipline, so we have been willing to be patient until we can get it right).

We had talked about a slowdown in China's economic growth before, and this is now happening, with signs that exports are growing less quickly than before, while companies have become less aggressive in spending capital. Economic growth in 2005, estimated at 10.1%, is projected to slow to 7.5% to 8.5% in 2006, and 7% to 8% in 2007.

As previously discussed, we welcome the slower pace. We long complained about how hard it has been for companies to make profits in China, due to vast over-capacity in a wide range of products and services. Slowing growth is beginning to improve capital-spending discipline, which should gradually cut over-capacity, while the economy, still robust despite the lower growth rate, is generating strong consumer spending to absorb the surplus production. The over-capacity problem remains burdensome and it will not disappear quickly, but the situation is more likely to get better than worse.

We are pleased to report that Value Partners Limited, the Manager, has won the Enterprise Award in the 2005 Hong Kong Business Awards competition organised by DHL and South China Morning Post to give recognition to Hong Kong's most successful businesses. Value Partners Limited is the first asset-management firm to win this keenly contested prize, which in previous years went to companies in commerce and industry.

Liquidity and financial resources

As at 31st December 2005, the Fund had bank balances of HK\$70,279,896 and had no borrowing. The Board of Directors believes that the Fund has sufficient financial resources to satisfy its commitments and working capital requirements.

Capital structure of the Fund

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

Exposure to fluctuations in exchange rates and related hedges

The Fund's assets and liabilities are primarily denominated in Hong Kong dollars and United States dollars. The Fund 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)

MANAGEMENT DISCUSSION AND ANALYSIS

Top 10 financial assets at fair value through profit or loss

| Name of investee company | Nature of business | Holdings | Cost HK\$ | Fair value HK\$ | Dividends | Dividends | % of net assets |
|---|----------------------------------|------------|--------------------|--------------------|------------------|------------------|--------------------|
| | | | | | received HK\$ | earned HK\$ | |
| NWS Holdings Ltd | Transportation equipment | 2,482,271 | 11,654,830 | 27,925,548 | 1,539,008 | 1,539,008 | 4.13 |
| Chaoda Modern Agriculture (Holdings) Ltd | Food and beverage | 8,097,700 | 12,109,525 | 25,912,640 | 866,454 | 866,454 | 3.83 |
| Ecogreen Fine Chemicals Group Ltd | Chemicals and applied product | 17,866,000 | 22,286,198 | 22,511,160 | 142,928 | 142,928 | 3.33 |
| Road King Infrastructure Ltd | Transport service | 3,713,000 | 12,185,497 | 20,607,150 | 1,299,550 | 1,299,550 | 3.04 |
| Vtech Holdings Ltd | Software application | 745,000 | 4,544,912 | 19,668,000 | 1,099,232 | 1,099,232 | 2.91 |
| China Resources Land Ltd | Property | 5,906,000 | 10,361,073 | 18,899,200 | 108,240 | 108,240 | 2.79 |
| Heng Tai Consumables Group Ltd | Food and beverage | 16,531,000 | 16,897,485 | 18,349,410 | 208,590 | 208,590 | 2.71 |
| China Shenhua Energy Co Ltd – H shares | Coal mining | 1,970,500 | 16,226,938 | 16,749,250 | – | – | 2.47 |
| GZI Transport Ltd | Transport service | 5,660,000 | 13,796,494 | 14,999,000 | 398,725 | 398,725 | 2.22 |
| Great Wall Motor Co Ltd – H shares | Transportation equipment | 5,891,500 | 16,735,400 | 14,876,038 | 196,391 | 196,391 | 2.20 |
| | | | <u>136,798,352</u> | <u>200,497,396</u> | <u>5,859,118</u> | <u>5,859,118</u> | <u>29.63</u> |

MANAGEMENT DISCUSSION AND ANALYSIS

Reconciliation of net assets

The rules on valuation of investments contained in the Articles of Association of the Fund and which are applied in the valuation of the Fund 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. International Financial Reporting Standards 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:

| | 2005 |
|--|---------------------------|
| | <i>HK\$</i> |
| Net assets for pricing purpose | 671,773,512 |
| Adjustment on valuation of listed financial assets at fair value | |
| through profit or loss by applying bid price as the fair value | (5,928,588) |
| Adjustment on valuation of unlisted or unquoted financial assets | |
| at fair value through profit or loss from cost to fair value | 9,708,182 |
| Adjustment on accruals for taxation | 1,319,370 |
| | <hr/> |
| Total assets less liabilities as shown in the balance sheet | <u>676,872,476</u> |

For and on behalf of the Board

So Chun Ki Louis

Chairman

Hong Kong, 20th April 2006