NOTES TO THE FINANCIAL STATEMENTS

1. General information

Value Partners China Greenchip Fund Limited (the "Fund") is a close-ended investment company registered with limited liability in the Cayman Islands on 16th January 2002.

The Fund's 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 Fund was listed on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") on 8th April 2002. The Fund has an initial life of 5 years from the date of the Placing and it will expire in April 2007. In the next Annual General Meeting, the Board of Directors will consider, as an ordinary resolution, the conversion of the Fund into an open-ended mutual fund corporation and the authorisation from the Securities and Futures Commission of Hong Kong (the "SFC") as an open-ended mutual fund corporation under the Code on Unit Trusts and Mutual Funds established by the SFC. Subject to the passing of the above resolution, shareholders shall be given the opportunity to vote to extend the life of the Fund for successive periods of 2 years each. In the event that the above resolution cannot be completed, upon the expiration of the initial term of 5 years (or such longer term if the life of the Fund is extended in the manner described above), the Fund will be wound up and dissolved in accordance with the Cayman Islands Companies Law.

The Fund's investment activities are managed by Value Partners Limited (the "Manager"). The Fund's administration is delegated to Standard Chartered Bank (Hong Kong) Limited. The registered office of the Fund is P.O. Box 309, Ugland House, George Town, Grand Cayman, Cayman Islands, British West Indies.

2. Significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented unless otherwise stated in the following text.

(a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). They have been prepared under the historical cost convention as modified by the revaluation of financial assets and liabilities held at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of accounting estimates. It also requires the exercise of judgement in the process of applying the Fund's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies *(Continued)*

(a) Basis of preparation (Continued)

Adoption of new/revised IFRS

In 2005, the Fund 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: disclosure 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 Fund'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 Fund's accounting policies.
- IAS 21 (revised 2003) had no material effect on the Fund's accounting policies. The functional currency of the Fund 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 classification and disclosures of financial instruments.
- IAS 39 (revised 2003) affected the categories of financial assets and liabilities for recognition and measurement purposes. The Fund redesignated its available-for-sale financial instruments as financial assets at fair value through profit or loss on adoption of IAS 39 (revised 2003). Fair value gains and losses on available-for-sale instruments were previously recognised in the income statement.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies *(Continued)*

(a) Basis of preparation (Continued)

Adoption of new/revised IFRS *(Continued)*

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards. There was no impact on opening net assets at 1st January 2004 from the adoption of any of the above-mentioned standards. All references to net assets throughout this document refer to net assets attributable to shareholders unless otherwise stated.

Standards, interpretations and amendments to published standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Fund's accounting periods beginning on or after 1st January 2006 or later periods but which the Fund has not early adopted, as follows:

- IAS 39 (Amendment) "The Fair Value Option" changes the definition of financial instruments classified at fair value through profit or loss and restricts the ability to designate financial instruments as part of this category. The Fund believes that this amendment should not have a significant impact on the classification of financial instruments, as the Fund should be able to comply with the amended criteria for the designation of financial instruments at fair value through profit and loss. The Fund will apply this amendment from annual periods beginning 1st January 2006.

- IFRS 7 "Financial Instruments: Disclosures" introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces the disclosure requirements in IAS 32. Amendment to IAS 1 "Presentation of Financial Statements - Capital Disclosures" introduces disclosures about the level of an entity's capital and how it manages capital. The Fund assessed the impact of IFRS 7 and the amendment to IAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment of IAS 1. The Fund will apply IFRS 7 and the amendment to IAS 1 from annual periods beginning 1st January 2007.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies *(Continued)*

(a) Basis of preparation (Continued)

No additional disclosure is included in relation to segment reporting, as the Fund's activities are limited to a single business segment. The Fund is organised into a single business segment, focusing on achieving 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.

(b) Financial assets and liabilities at fair value through profit or loss

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

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

Gains and losses arising from changes in the fair value of financial assets and liabilities at fair value through profit or loss are included in the 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 income statement.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies *(Continued)*

(c) Derivative financial instruments

Derivatives 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 derivatives are carried as assets when fair value is positive, and as liabilities when fair value is negative.

The best evidence of the fair value of a derivative 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 instrument are recognised immediately in the income statement.

(d) Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Fund is the current bid price.

The Fund may from time to time invest in financial instruments that are not traded in an active market. The fair value of such instruments is determined by using valuation techniques. The Fund 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.

(e) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the 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.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies *(Continued)*

(f) Amounts receivable/payable on sale/purchase of financial assets at fair value through profit or loss

Amounts receivable/payable on sale/purchase of financial assets at fair value through profit or loss represent receivables for securities sold and payables for securities purchased that have been contracted for but not yet delivered by the end of the year.

(g) Share capital

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 Fund repurchases its own shares, the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity.

(h) Income

Dividend income is recognised when the right to receive payment is established.

Interest income is recognised in the 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 Fund estimates cash flows considering all contractual terms of the financial instrument 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.

(i) Expenses

Expenses are accounted for on an accruals basis.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant accounting policies *(Continued)*

(j) Foreign currency translation

(i) Functional and presentation currency

Items included in the Fund's 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 Fund's primary activity of investing in Hong Kong securities and derivatives and the fact that issues and redemptions of shares, performance measurement and reporting to the shareholders as well as settlement of the majority of fees and expenses are carried out in Hong Kong dollars.

The Fund has adopted the Hong Kong dollar as its presentation currency and the financial statements are presented in Hong Kong dollars, as the Fund is listed in Hong Kong.

(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 year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the 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.

(k) Taxation

The Fund currently incurs withholding tax imposed by certain countries on investment income. Such income is recorded gross of withholding tax in the income statement.

(l) 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.

NOTES TO THE FINANCIAL STATEMENTS

3. Financial risk management

The Fund achieves its investment objective through investing in listed and unlisted equity securities, debt securities, call options 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 Fund 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 Fund'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 equity securities, debt securities, call options and warrants totalling HK$622,949,549 as at year 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 Fund. Financial assets which potentially subject the Fund to concentrations of credit risk consist principally of financial assets at fair value through profit or loss and bank balances.

The Fund may invest in debt instruments which are unrated or rated with low credit ratings. These securities are subject to greater risk of loss of principal and interest than securities with higher credit ratings. The Fund may also invest in emerging markets where the clearing, settlement and registration systems available to effect trades are less developed than those in more mature markets. These can result in delays and other difficulties in settling trades and registering transfers of securities.

NOTES TO THE FINANCIAL STATEMENTS

3. Financial risk management *(Continued)*

(b) Credit risk (Continued)

In addition, assets deposited as margin with executing brokers need not be segregated from their own assets. Such assets may therefore be available to the creditors of such persons in the event of their insolvency.

The Fund 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 Fund 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, there is no significant concentration of credit risk.

(c) Interest rate risk

The Fund is exposed to minimal interest rate risk as the Fund invests mainly in equity securities and its financial liabilities are non-interest bearing. The Fund's bank balances and debt instruments are exposed to interest rate risk which is considered to be minimal as their contractual repricing or maturity dates (whichever dates are earlier) fall mainly within 1 year after the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

3. Financial risk management *(Continued)*

(d) Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Fund has no significant currency risk because the majority of the assets and liabilities are denominated in Hong Kong dollars (the Fund's functional and presentation currency) and United States dollars which are linked to Hong Kong dollars.

As at 31st December, total assets net of liabilities of the Fund held in different currencies were as follows:

		2005		**2004**
		HK$		*HK$*
	Amount	**equivalent**	**Amount**	**equivalent**
Australian dollar	2,027,422	11,531,165	4,255,143	25,724,888
Hong Kong dollar	534,655,022	534,655,022	373,319,668	373,319,668
New Taiwan dollar	11,870,508	2,802,627	9,934,031	2,416,950
Singapore dollar	4,909,786	22,893,842	4,447,953	21,132,227
United States dollar	13,541,281	104,989,820	20,071,196	156,097,721
		676,872,476		578,691,454

(e) Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in settling a liability or selling a financial asset quickly at close to its fair value.

The markets in which the Fund invests may be relatively illiquid and the liquidity of these markets generally has fluctuated substantially over time. Investment of the Fund's assets in relatively illiquid securities may restrict the ability of the Fund to dispose of its investments at a price and time that it wishes. The risk of illiquidity also arises in the case of over-the-counter transactions. There is no regulated market for such transactions, and the prices will be established solely by dealers in those transactions. The Manager considered that there is no significant liquidity risk on the investment portfolio of the Fund as the majority of the assets of the Fund are invested in liquid investments which are considered to be readily realisable.

NOTES TO THE FINANCIAL STATEMENTS

4. Critical accounting estimates and judgements in applying accounting policies

The Fund makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. 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 Fund 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 which are validated and periodically reviewed 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 Fund to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

5. Financial assets at fair value through profit or loss

	2005	**2004**
	HK$	*HK$*
Held for trading		
Call options	–	256,741
Warrants	2,147,677	39,744
Total held for trading	2,147,677	296,485
Designated as fair value through profit or loss		
Listed equity securities	570,251,714	462,148,977
Unlisted equity securities	22,960,028	8,263,276
Debt securities	27,590,130	10,730,000
Total designated as fair value through profit or loss	620,801,872	481,142,253
Total financial assets at fair value through profit or loss	622,949,549	481,438,738

NOTES TO THE FINANCIAL STATEMENTS

6. Derivative financial instruments

The Fund holds the following derivative instruments:

Call options

A call option is a contractual arrangement under which the seller grants the purchaser the right, but not the obligation, either to buy at or by a set date or during a set period, a specific amount of securities or a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of future securities price. The Fund is exposed to credit risk on purchased options only to the extent of their carrying amount, which is their fair value.

Warrants

Warrants are like options, but with longer time spans. They are issued by financial institutions whereas options are not. In addition, warrants are usually issued along with another class of security to enhance the marketability of the latter.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the balance sheet, but they do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and do not therefore indicate the Fund's exposure to credit or market price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable and, thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

NOTES TO THE FINANCIAL STATEMENTS

6. Derivative financial instruments *(Continued)*

The Fund's derivative financial instruments at year-end are detailed below:

At 31st December 2005

	Notional amount	Fair values Assets HK$	Fair values Liabilities HK$
Call options	US$17,283,100	–	–
Warrants	US$288,084	2,147,677	–
		2,147,677	–

At 31st December 2004

	Notional amount	Fair values Assets HK$	Fair values Liabilities HK$
Call options	US$38,175,800	256,741	–
Warrants	HK$12,458,449	39,744	–
		296,485	–

NOTES TO THE FINANCIAL STATEMENTS

7. Share capital

	Number of shares	Share capital *HK$*	Total *HK$*
At 1st January and 31st December 2004	30,700,000	3,070,000	3,070,000
Repurchase of own shares	(50,000)	(5,000)	(5,000)
At 31st December 2005	30,650,000	3,065,000	3,065,000

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

The Fund acquired 10,000 and 40,000 of its own shares through purchases on the Hong Kong Stock Exchange on 28th June 2005 and 7th July 2005 respectively. The total amount paid to acquire the shares was HK$172,330 and HK$680,304 respectively and has been deducted from equity. The shares were cancelled upon the repurchase.

NOTES TO THE FINANCIAL STATEMENTS

8. Related party transactions

The following is a summary of significant related party transactions. All such transactions were entered into in the ordinary course of business and on normal commercial terms.

(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 Fund. 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 product of the average number of shares in issue during the year and the amount by which the net asset value per share as at 31st December of each year (the "performance fee valuation day") before accrual of performance fee exceeds the higher of (i) the net asset value per share on the day dealing in shares of the Fund on the Hong Kong Stock Exchange 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 (after payment of the performance fee). The performance fee is calculated and accrued daily and payable yearly in arrears.

NOTES TO THE FINANCIAL STATEMENTS

8. Related party transactions *(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") before accrual of underwriting fee and performance fee exceeds the higher of (i) the net asset value per share on the day dealing in shares of the Fund on the Hong Kong Stock Exchange 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 (after payment of the underwriting fee and performance fee). The underwriting fee is calculated and accrued daily and payable yearly in arrears.

(d) Custodian, transaction handling and fund services fees

The Custodian, Standard Chartered Bank (Hong Kong) Limited, is entitled to receive a custodian fee which represents a variable fee ranging from 0.04% per annum to 0.08% per annum of the value of securities under custody. The custodian fee is calculated, accrued and payable monthly in arrears.

The Custodian is also entitled to receive a transaction handling fee which represents a variable fee ranging from US$30 to US$80 per transaction.

In addition, the Custodian is entitled to receive a fund services fee which represents 0.06% per annum of the net asset value of the Fund for daily and monthly reporting, subject to a minimum of US$15,000 per annum, and US$900 per valuation for interim and year-end reporting. The fund services fee is calculated, accrued and payable monthly in arrears.

NOTES TO THE FINANCIAL STATEMENTS

8. Related party transactions *(Continued)*

(e) Directors' and senior management's emoluments

The remuneration of every director for the year is set out below:

	Fees	
Name of director	**2005**	**2004**
	HK$	*HK$*
Mr Cheah Cheng Hye	–	–
Mr Li Aubrey Kwok Sing	90,000	80,000
Mr Paul Marin Theil	90,000	80,000
Mr Teng Ngiek Lian	90,000	80,000
Mr Yeung Kin Sing, William	90,000	80,000
Mr Ngan Wai Wah, Franco (appointed on 26th March 2004)	–	–
Mr Ng Ka Wai, Eric (appointed on 23rd September 2004)	90,000	21,855
Mr So Chun Ki Louis (appointed on 22nd March 2005)	–	–
Mr Choi Nga Chung, Jacky (resigned on 22nd March 2005)	–	–
Mr Li Kar Keung, Caspar (resigned on 6th February 2004)	–	–

The 5 individuals whose emoluments were the highest in the Fund for both years were also directors and their emoluments are reflected in the analysis presented above.

(f) Manager's holding in the Fund and common directors

The Manager held 200,000 (2004: 200,000) shares of the Fund and had 2 (2004: 2) common directors with the Fund as at 31st December 2005.

NOTES TO THE FINANCIAL STATEMENTS

8. Related party transactions *(Continued)*

(g) *Cross trades with a fund managed by the Manager*

During the year ended 31st December 2005, the Fund purchased 1,394,500 H shares of Great Wall Motor Company Limited from another fund which is under the Manager's discretionary management at a cost of HK$4,532,125 which was based on the closing price on the Hong Kong Stock Exchange on the date of the purchase transaction (2004: Nil). The purchase decision was in the best interest of the Fund and fell within the investment objective and policies of the Fund. The transaction was executed on arm's length terms at current market price.

(h) *Transactions in shares of companies with a common director*

(i) As at 31st December 2005, the Fund held 1,110,000 shares of Kowloon Development Company Limited with a total fair value of HK$9,102,000 (2004: 1,110,000 shares with a total fair value of HK$9,490,500). Mr Li Aubrey Kwok Sing, a director of the Fund, is also a director of Kowloon Development Company Limited.

(ii) In 2004, the Fund held 531,250 junior preference shares and senior preference shares each of Shui On Land Limited with a total fair value of HK$8,263,276. Besides, the Fund had commitments in respect of the purchase of junior preference shares and senior preference shares of Shui On Land Limited as disclosed in note 12. Mr Ho Man Kei, Norman, a director of the Manager, was also a director of Shui On Land Limited. Mr Ho resigned as director of Shui On Land Limited on 15th August 2005.

(iii) As at 31st December 2005, the Fund held 544,000 shares of Ocean Grand Chemicals Holdings Limited with a total fair value of HK$522,240 (2004: Nil). In 2004, the Fund transacted in shares of Hysan Development Company Limited, Next Media Limited and Ocean Grand Chemicals Holdings Limited and realised a gain of HK$54,259, a loss of HK$610,374 and a gain of HK$9,670 in these transactions respectively. Mr V-Nee Yeh, a director of the Manager, is also a director of Hysan Development Company Limited, Next Media Limited and Ocean Grand Chemicals Holdings Limited.

NOTES TO THE FINANCIAL STATEMENTS

9. Taxation

The Fund has obtained an undertaking from the Governor-in-Council of the Cayman Islands that, in accordance with Section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, for a period of 20 years from 22nd January 2002, no laws thereafter enacted in the Cayman Islands imposing any tax on profits, income, gains or appreciations will apply to the Fund.

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profit for the year.

	2005	**2004**
	HK$	*HK$*
Hong Kong profits tax	51,161,390	–

The tax on the Fund's profit before tax differs from the theoretical amount that would arise using the tax rate applicable to profits of the Fund as follows:

	2005	**2004**
	HK$	*HK$*
Profit before tax	47,892,459	11,983,266
Tax calculated at a tax rate of 17.5% (2004: 17.5%)	8,381,180	2,097,072
Income not subject to tax	(4,317,007)	(2,485,120)
Expenses not deductible for tax purposes	1,684,983	231,734
Tax losses for which no deferred income tax asset was recognised	–	156,314
Write-back of tax payable in relation to prior years *(note)*	(56,910,546)	–
Income tax credit	(51,161,390)	–

Note: In August 2005, the Fund has cleared its tax position with the Inland Revenue Department (the "IRD") for the years of assessment 2002/03 and 2003/04. Accordingly, the Fund has written back the tax payable in the balance sheet as at 31st December 2004 in respect of these 2 years of assessment of HK$56,910,546. Later in September 2005, the Fund further cleared its tax position with the IRD for the year of assessment 2004/05.

Overseas withholding tax was charged on certain dividend and investment income received during the year.

NOTES TO THE FINANCIAL STATEMENTS

10. Basic earnings per share and net asset value per share

The basic earnings per share is calculated by dividing the profit for the year of HK$99,033,656 (2004: HK$11,970,615) by the weighted average number of shares in issue during the year, being 30,675,534 (2004: 30,700,000).

The net asset value per share is calculated by dividing the net assets included in the balance sheet of HK$676,872,476 (2004: HK$578,691,454) by the number of shares in issue at the year end, being 30,650,000 (2004: 30,700,000). Net asset value per share was HK$22.08 as at 31st December 2005 (2004: HK$18.85).

11. 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 Fund 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.

12. Commitments

In 2004, the Fund had commitments contracted but not provided for in the financial statements in respect of the purchase of 318,750 junior preference shares and senior preference shares each of Shui On Land Limited with a total amount of HK$4,957,964 which represents the portion of the committed preference shares not yet called for subscription.

13. Approval of financial statements

The financial statements were approved by the Board of Directors on 20th April 2006.