



# VALUE PARTNERS CHINA GREENCHIP FUND LIMITED

JUNE 2010

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- Please pay particular attention to the risk of investment in China and other markets in the Asian region and in companies with medium or small capitalization. The value of the fund can be extremely volatile and could go down substantially within a short period of time. It is possible that the entire value of your investment could be lost.
- The fund may also invest in derivatives which can involve material risks, e.g. counterparty default risk, insolvency or liquidity risk, and may expose the fund to significant losses.
- You should not make investment decision on the basis of this material alone. Please read the explanatory memorandum for details and risk factors.
- You should not invest unless the intermediary who sells it to you has advised you that the product is suitable for you and explained how it is consistent with your investment objectives.

## Fund facts

### Investment objectives

The investment objective of the Fund 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 in, or trade with, Greater China. This includes companies incorporated and/or listed outside Greater China.

Manager: Value Partners Limited (CE Ref: ABN 759)  
 Base currency: HK\$  
 Legal domicile: Cayman Islands  
 Administrator: Bank of Bermuda (Cayman) Limited  
 Custodian: HSBC Institutional Trust Services (Asia) Limited  
 Legal adviser: Simmons & Simmons  
 Auditor: PricewaterhouseCoopers  
 Launch date: 8 April 2002

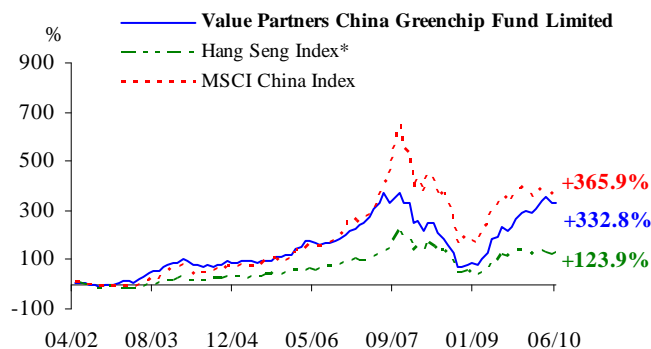
Bloomberg code: VPCHIGC KY  
 ISIN code: KYG9317M1033

Total assets under management by Value Partners Group:  
 US\$5.5 billion (as at 31 May 2010)

NAV per share: HK\$43.28

Fund size: HK\$395.46 million

### Performance since launch #



### Performance update #

	Value Partners China Greenchip Fund Limited	MSCI China Index	Hang Seng Index*
One month	+0.9%	+1.2%	+2.2%
Year-to-date	+9.2%	-5.7%	-6.1%
Three years	+0.9%	+2.0%	+1.9%
Five years	+125.4%	+159.6%	+67.1%
Since launch	+332.8%	+365.9%	+123.9%
Annualized return	+19.4%	+20.5%	+10.3%
Annualized volatility	23.9%	28.7%	22.2%

Annualized return and volatility are calculated from inception on 8 April 2002. Volatility is a measure of the theoretical risk in terms of standard deviation; in general, the lower the number, the less risky the investment, and vice versa.

### Annual return since launch #

2002 (Since launch)	+0.2%	2007	+36.3%
2003	+85.6%	2008	-57.4%
2004	+1.5%	2009	+116.7%
2005	+16.1%	2010 (Year-to-date)	+9.2%
2006	+43.7%		

### Monthly performance from Year 2004 to 2010 #

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual
2004	+1.4%	+6.3%	-1.2%	-8.7%	-1.1%	-2.8%	+0.8%	-0.3%	+3.7%	+0.6%	+5.4%	-1.6%	+1.5%
2005	+1.2%	+4.2%	-2.7%	-1.1%	-1.4%	+1.6%	+1.1%	+0.0%	+11.0%	-3.2%	+3.6%	+1.5%	+16.1%
2006	+10.7%	+4.0%	+9.2%	+0.5%	-3.7%	-1.6%	+1.9%	+1.4%	+1.4%	+3.7%	+6.7%	+3.6%	+43.7%
2007	+3.1%	+4.8%	+3.8%	+4.7%	+9.6%	+5.7%	+9.7%	-9.1%	+3.6%	+5.8%	-7.4%	-1.0%	+36.3%
2008	-18.6%	+1.4%	-9.6%	+10.2%	-2.2%	-11.8%	-5.7%	-10.0%	-12.1%	-26.1%	+0.8%	+7.8%	-57.4%
2009	+0.2%	-0.2%	+10.2%	+13.1%	+25.0%	+1.9%	+14.0%	-4.8%	+6.9%	+7.9%	+6.2%	+2.5%	+116.7%
2010	-1.3%	+3.0%	+8.1%	+4.2%	-5.4%	+0.9%							+9.2%

Unless specified, all information contained on this report is quoted as at 30 June 2010.

† © 2009 Morningstar, Inc. All Rights Reserved. Morningstar Rating™ as at 31 May 2010.

\*Index refers to Hang Seng Price Return Index up to 31 December 2004, thereafter it is the Hang Seng Total Return Index. Hang Seng Total Return Index includes dividend reinvestment whereas Hang Seng Price Return Index does not take into account reinvestment of dividends.

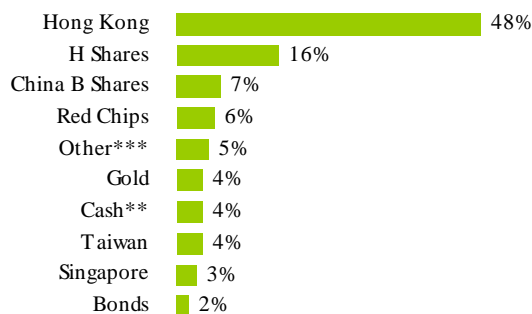
#Source: HSBC Institutional Trust Services (Asia) Limited and Bloomberg, in HKD, NAV to NAV, with dividends reinvested. Performance data is net of all fees.

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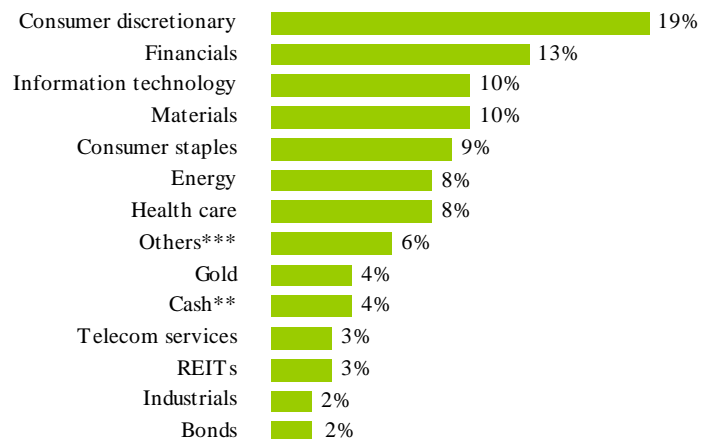
**Top 10 security holdings**

Name	Industry <sup>^</sup>	%
Chow Sang Sang	Retailing	6.3
Kingboard Chemical	Technology, hardware & equip	3.6
China Vanke	Real estate	3.0
Hopefluent Group	Real estate	2.8
PetroChina	Energy	2.6
China Wireless Technologies	Technology, hardware & equip	2.6
Yantai Changyu Pioneer Wine	Food, beverage & tobacco	2.4
CNOOC	Energy	2.1
Link REIT	REITs	2.1
China Mobile	Telecommunication services	2.0

These stocks constitute 30% of the fund.

**Geographical exposure by listing<sup>\*</sup>**

Short exposure includes: Hong Kong, -1.4%; H Shares, -2.4% and Red Chips, -1.3%.

**Sector exposure<sup>^\*</sup>**

Total short exposure is -5.1%. Short exposure includes: Materials, -2.4%; Financials, -2.3% and Consumer discretionary, -0.4%.

\*Exposure refers to net exposure (long exposure minus short exposure).

\*\*Cash refers to net cash on hand excluding cash for collateral and margin.

\*\*\*Others include 5.0% cash for collateral and margin.

**Portfolio characteristics**

As at 30 June 2010	2010 <sup>+</sup>
Price/earnings ratio	12.9 times
Price/book ratio	2.3 times
Dividend yield	3.2%

<sup>+</sup>The above profile is based on market consensus forecast as derived from I/B/E/S and Bloomberg. Note that the manager's internal estimates may differ significantly from I/B/E/S and Bloomberg estimates.

<sup>^</sup>Classification is based on Global Industry Classification Standard (GICS).

**Fee structure**

Minimum subscription	HK\$80,000
Subscription fee	Up to 5 %
Management fee	1.5 % p.a.
Performance fee**	15% of profit (High-on-high principle)
Redemption fee	
(first 12 months)	5%
(second 12 months)	3%
(after 24 months)	Waived
Dealing day	Last business day of each calendar month
Notice period for redemptions	Within the period of 10 <sup>th</sup> to 15 <sup>th</sup> day of each calendar

\*\*Performance fee will only be charged if the NAV at the end of the financial year exceeds the "high watermark", which is the all-time year-end high of the fund's NAV. If in any one year, the fund suffers a loss, no performance fee can be charged in subsequent years until the loss is recovered fully (the high-on-high principle).

NAV per share is published daily in the South China Morning Post and Hong Kong Economic Times.

**Selection of awards & ratings****Corporate awards****2010 - Hedge Fund 100**

Value Partners was ranked as Asia's largest hedge fund manager, and 79th worldwide

~ Institutional Investor, May 2010

**Best Overall Fund Management Firm - Asia**

Value Partners was recognized as one of the top three fund management companies

~ Thomson Reuters Extel Asia Pacific Survey 2009

**Leading Buyside Individual - Asia**

Mr. Eric Chow, Value Partners fund manager, was ranked No. 1 out of 25 individuals named

~ Thomson Reuters Extel Asia Pacific Survey 2009

**The 3rd consecutive year to be ranked as the 2nd Largest Hedge Fund Manager in Asia**

~ Alpha Magazine, Jul/Aug 2009 edition

Mr. Cheah Cheng Hye, Chairman and CIO of Value Partners, was recognized as one of The 25 Most Influential people in Asset Management in Asia

~ AsianInvestor, May 2009

**2007 Achievement Awards - Capital Markets Person of the Year: Mr. Cheah Cheng Hye, Value Partners**

~ FinanceAsia

**Value Partners Investment Team**

**Chairman & Co-Chief Investment Officer:** Cheah Cheng Hye

**Co-Chief Investment Officer:** Louis So Chun Ki, MCom

**Deputy Chief Investment Officer:** Renee Hung Yeuk Yan, BSc

**Investment Director:** Norman Ho Man Kei, CFA

**Senior Fund Managers:** Eric Chow Yik Cheung; Fawaz Habel;

Ada Lau Hiu Yee, CFA; Lee Ho Tak, CFA; Alan Wang, CFA

## **Value Partners China Greenchip Fund Limited Commentary / Second Quarter 2010**

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- **The fund primarily invests in companies established in Greater China or which derive a majority of their revenue from business related to Greater China.**
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From late last year, Value Partners became more cautious on the near-term outlook for China-related stocks (as stated in our Third-Quarter 2009 commentary, a caution we repeated at the end of first quarter 2010), and this resulted in an increasingly defensive portfolio. This is just as well since 2010 has turned out to be difficult and very volatile, meaning this hasn't been the time to be greedy; rather, our emphasis has been to get our research right to ensure we have a solid portfolio, positioned for potential future gains when sentiment improves and, in the meantime, we must try to avoid giving back the profit achieved last year.

In the first-half 2010, the fund returned 9.2% – but the important point is that we remained resilient at a time of widespread losses in the market. During the same period, Hang Seng Index fell by 6.1%, while MSCI China Index dropped by 5.7%. (Note that in 2009, the fund rose by a net 116.7% while these two indices increased by 56.6% and 62.4%, respectively.) The Mainland A-share market, represented by Shanghai Stock Exchange Composite Index, fell 26.8% in the first-half of 2010. For the one year ended 30 June 2010, the fund recorded a gain of 49.0%, compared to returns of 12.8% and 11.4% recorded by Hang Seng and MSCI China indices, respectively, over this period.

We remain cautious. Our biggest concern currently is not about China and Asia, it's about the troubled state of the world as a whole. The shaky finances in parts of Europe and elsewhere, the possibility of a double dip in developed-world economies and the risk of protectionism cannot be taken lightly, and if something goes wrong, the impact will, again, be global.

### **Bottom-up investing**

Regarding China, investors are in their usual state of confusion. Last year's stronger-than-expected economy (with 9.1% growth) initially caused over-optimism, which reached a high point when 11.9% growth was reported for first quarter 2010. But it was clear the rapid pace was unsustainable as the government needed to exit from the economic stimulus of 2009. More recently, the mood has swung to over-pessimism, as investors appreciate that a slowdown has started, while a theory that a dangerous bubble has formed in China is also circulating. (In fact, the latest economic indicators point to a fairly decent "soft landing" for the Chinese economy, with growth slowing to perhaps 9% this year, and 8% next year. In China currently, growth of 7% or less would be considered a setback.)

Amid these mood swings, an important point has been missed. From one year to the next, the performance of China-related stocks isn't well correlated with economic growth numbers (though over the very long term, the two are linked); in some years, stock market performance was strong even though economic numbers were weak, and vice versa. (There are various reasons for this, including the fact that China's listed companies, dominated by state-owned enterprises, do not represent the economy that well, and in a country ruled by government policies, the share of the economic cake that goes to corporate income is unpredictable and not well correlated with economic growth.)

Simply, many stock investors are making a mistake by deciding on China based on observations about the macro-economy, when they should care a lot more about finding companies with the 3 Rs: the Right Business, run by the Right People at the Right Price. This is certainly not a mistake we want to make, and our portfolio remains well-invested in companies from China and from Asia generally, a program driven by bottom-up value-investing, inclusive of numerous company visits (we are doing an estimated 2,500 company visits a year, excluding phone calls.)

Having said that, we are indeed acting with more caution than usual, as the global environment is troubling. Our cash level stand at 4%, while we retain 4% of the portfolio in gold, which has been part of our fund for many years. We emphasize defensive stocks.

Quick updates:

- \* Risk of a bubble. As stated before, even if a bubble forms (and we still don't think there is a big bubble in China), the government has the resources to deal with it. Not many people seem to realize a simple truth about China: this is a land of trapped savings. One-party rule, strict capital controls and tightly guarded borders, and a banking system very obedient to the State mean that the bulk of the Chinese people's savings is "trapped." Interest rates, lending quotas and the direction of lending are a matter of government policy, and to a significant extent, even the investment agenda is set by the state for the people. Thus, an awesome weapon – meaning the savings of the "masses" – is available to Beijing to pursue its policy goals or deal with any setbacks. In practice, academic studies show that this tight system has resulted in a long history of savers subsidizing investment, making China strong and able to fight crises, but at the expense of people's ability to maximize the return on their savings.

### **Value Partners: New CEO**

We continue to strengthen the management of Value Partners Group Ltd.

Recently, the group announced that Mr. Chan Sheung Lai, Jimmy, was appointed Chief Executive Officer (CEO) from July 1, 2010. Mr. Tse Wai Ming, Timothy, became Deputy CEO while retaining his existing title of Chief Financial Officer. These appointments follow the departure late last year of Mr. Franco Ngan, who was our CEO for several years. An accountant by training, Mr. Chan has more than 20 years of experience in business management, corporate finance and investment work. Previously, he was Chief Executive (Beijing and North China) of KaiLong REI Investment, which was involved in real estate investment in China, with funds raised from overseas institutions.

While the business and corporate affairs team gets a new CEO, the Investment Team gets an upgrade with Mr. So Chun Ki, Louis, who was promoted to Co-Chief Investment Officer (Co-CIO), from his previous position of Deputy CIO. Mr. Cheah Cheng Hye remains Executive Chairman of the group, while his other title, that of CIO, was modified to Co-CIO to accommodate Mr. So's promotion.

Value Partners is the only listed fund management company on the Hong Kong Stock Exchange. Its emphasis has always been on the performance of the funds under its management, and, indeed, the declared corporate objective is to create a “Temple of Value Investing” for the Asia-Pacific markets. Additionally, for many years, Value Partners has put much effort into building up a full infrastructure. Thus, there is a complete system of support services, such as dealing, compliance, client administration, accounts, IT and back office functions, and so on. The Group currently has more than 90 employees and has evolved into a full-fledged institution, although we have carefully maintained the investment culture of an entrepreneurial boutique, as can be seen from our performance results. The newly announced promotions are part of the efforts to be a strong institution.

With thanks and regards,

Value Partners Investment Team  
Value Partners Limited  
12 July 2010

*All performance figures are sourced from HSBC Institutional Trust Services (Asia) Limited and Bloomberg (data computed in HK\$ terms on NAV-to-NAV basis with dividends reinvested) as at 30 June 2010. Performance data is net of all fees.*

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**Value Partners China Greenchip Fund Limited: 5 biggest holdings of securities as at 30 June 2010**

Stock	Industry	Valuation (2010 Est.)	Remarks
Chow Sang Sang (Code: 116 HK)  Market cap: US\$1.2 billion	Retailing	Price: HK\$13.28 P/E: 12.5x P/B: 1.6x Yield: 2.4%	Chow Sang Sang is a household name for jewellery retailing in Hong Kong and China. The brand is 70 years old and has been nurtured by several generations of the Chow family. The brand has a strong reputation that is a key success factor in the jewellery industry. The company is a beneficiary of the relaxed travel restrictions imposed upon Chinese mainland visitors to Hong Kong and is successfully capturing the strong consumption power of the top-tier Chinese consumers.
China Vanke (Code: 200002 CH)  Market cap: US\$11.6 billion	Real estate	Price: HK\$8.19 P/E: 11.7x P/B: 1.9x Yield: 1.3%	China Vanke is China's largest developer of residential properties, responsible for more than 150 projects in 31 Chinese mainland cities. Given its strong brand recognition and seasoned management, China Vanke is well positioned to benefit from the long-term secular growth of the Chinese property market, supported by sustainable household income growth and fast urbanization. The Company thrives from its healthy financial position and track record for timely product launches.
Hopefluent Group (Code: 733 HK)  Market cap: US\$0.1 billion	Real estate	Price: HK\$2.74 P/E: 9.9x P/B: 1.3x Yield: 2.0%	Hopefluent is one of the leading nationwide property agencies in China, which provides service coverage of primary and secondary real estate markets. It is the largest property agency in Guangzhou, with over 30% of market share and it is well-positioned to benefit from the long-term growth in Guangzhou's secondary property market. The Company has established close working ties with large-scale property developers, such as China Vanke, China Overseas Land and KWG Property. We believe these long-term business relationships benefit the Firm through the growing outsourcing trend as developers gradually contract out their sales functions to professional agencies.
Kingboard Chemical (Code: 148 HK)  Market cap: US\$3.7 billion	Technology, hardware and equipment	Price: HK\$33.80 P/E: 9.2x P/B: 1.2x Yield: 3.1%	With more than 50 factories in China and more than 40,000 employees globally, Kingboard Chemical manufactures various basic electronic components. Its core products include laminates, copper foils, printed-circuit boards and various upstream chemical products. Being vertically integrated and efficiently managed, Kingboard Chemical has consistently delivered above-average returns to its shareholders in the past 15 years. The group's proven management and powerful track record bodes well for the future.

Stock	Industry	Valuation (2010 Est.)	Remarks
PetroChina (Code: 857 HK)  Market cap: US\$206.1 billion	Energy	Price: HK\$8.77 P/E: 11.2x P/B: 1.7x Yield: 3.6%	PetroChina is the largest integrated oil company in Asia. Exploration and production assets consist of crude reserves of over 11 billion barrels and gas reserves of over 63 billion cubic feet. This is complemented by a pipeline network of over 50,000 km in China. Its downstream assets consist of refining, with a distilling capacity of 134 million tons, and a service station marketing network of over 17,000 stations. In 2009, the company produced 844 million barrels of oil and 2.1 billion cubic feet of gas, mostly in China, although its overseas assets in South America, Africa and Central Asia produced oil and gas of 104 million boe (barrels of oil equivalent) or 8.7% of the total. For 2010, Petrochina should see a firm rebound in realized petrol prices, as well as double-digit volume growth in natural gas.

Note: The above investments make up 18.3% of Value Partners China Greenchip Fund Limited as at 30 June 2010. The stock prices are based on the closing of 30 June 2010.

Individual stock performance/yield is not necessarily indicative of overall fund performance.