惠 理 集 團
Value Partners Group

VALUE PARTNERS GROUP LIMITED
惠理集團有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 806)

INTERIM RESULTS ANNOUNCEMENT FOR THE PERIOD ENDED 30 JUNE 2012

FINANCIAL HIGHLIGHTS

The key financial highlights for the reporting period are as follows:

	For the period ended 30 June		
(In HK$ million)	**2012**	**2011**	**% Change**
Total revenue	**266.6**	385.4	-30.8%
Gross management fees	**228.3**	251.0	-9.0%
Gross performance fees	**0.9**	107.0	-99.2%
Profit attributable to equity holders of the Company	**88.2**	198.7	-55.6%
Basic earnings per share (HK cents)	**5.0**	11.3	-55.8%
Diluted earnings per share (HK cents)	**5.0**	11.1	-55.0%
Interim dividend per share	**Nil**	Nil	

INTERIM RESULTS

The Board of Directors (the "Board") of Value Partners Group Limited (the "Company") is pleased to announce the consolidated results of the Company and its subsidiaries (the "Group") for the period ended 30 June 2012 together with respective comparative figures. The following financial information, including the comparative figures, has been prepared in accordance with Hong Kong Financial Reporting Standards (the "HKFRS") issued by the Hong Kong Institute of Certified Public Accountants.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2012

	Note	Six months ended 30 June 2012 HK$'000 Unaudited	2011 HK$'000 Unaudited
Income			
Fee income	2	**266,577**	385,427
Distribution and advisory fee expenses		**(86,438)**	(80,662)
Net fee income		**180,139**	304,765
Other income		**25,437**	13,340
Total net income		**205,576**	318,105
Expenses			
Share-based compensation		**(803)**	(5,469)
Other compensation and benefit expenses		**(75,268)**	(94,488)
Operating lease rentals		**(6,466)**	(5,958)
Other expenses		**(34,221)**	(25,661)
Total expenses		**(116,758)**	(131,576)
Other gains – net	3	**14,361**	42,647
Operating profit		**103,179**	229,176
Share of loss of an associate		**(4,505)**	(158)
Share of loss of a joint venture		**–**	(2,186)
Profit before tax		**98,674**	226,832
Tax expense	4	**(14,700)**	(28,101)
Profit for the period		**83,974**	198,731
Other comprehensive loss for the period			
Fair value losses on available-for-sale financial assets		**(170)**	(1,310)
Foreign exchange translation reserve		**(2,192)**	–
Other comprehensive loss for the period		**(2,362)**	(1,310)
Total comprehensive income for the period		**81,612**	197,421
Profit attributable to			
Equity holders of the Company		**88,158**	198,731
Non-controlling interests		**(4,184)**	–
		83,974	198,731
Total comprehensive income for the period attributable to			
Equity holders of the Company		**85,726**	197,421
Non-controlling interests		**(4,114)**	–
		81,612	197,421
Earnings per share for profit attributable to equity holders of the Company (HK cents per share)			
– basic	5	**5.0**	11.3
– diluted	5	**5.0**	11.1

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2012

	Note	**30 June 2012** ***HK$'000*** **Unaudited**	31 December 2011 *HK$'000* Audited
Non-current assets			
Property, plant and equipment		**9,190**	8,129
Intangible assets		**54,746**	52,670
Investment properties		**93,000**	78,000
Investment in an associate		**45,414**	–
Deferred tax assets		**132**	328
Investments	*7*	**1,162,835**	959,556
Other assets		**13,636**	13,529
		1,378,953	1,112,212
Current assets			
Investments	*7*	**25,548**	21,081
Fees receivable	*8*	**62,548**	61,427
Prepayments and other receivables		**31,584**	37,362
Cash and cash equivalents	*9*	**996,277**	1,315,348
		1,115,957	1,435,218
Current liabilities			
Accrued bonus		**15,412**	69,501
Distribution fee expenses payable	*10*	**26,034**	23,933
Other payables and accrued expenses		**25,962**	21,197
Current tax liabilities		**22,875**	8,785
		90,283	123,416
Net current assets		**1,025,674**	1,311,802
Net assets		**2,404,627**	2,424,014
Equity			
Capital and reserves attributable to equity holders of the Company			
Issued equity	*11*	**889,213**	889,213
Other reserves		**152,042**	153,671
Retained earnings			
– proposed dividends	*6*	**–**	101,802
– others		**1,273,356**	1,185,198
		2,314,611	2,329,884
Non-controlling interests		**90,016**	94,130
Total equity		**2,404,627**	2,424,014

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The condensed consolidated interim financial information for the six months ended 30 June 2012 has been prepared in accordance with HKAS 34 "Interim Financial Reporting". The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2011, which have been prepared in accordance with Hong Kong Financial Reporting Standards (the "HKFRS") issued by the Hong Kong Institute of Certified Public Accountants.

New standards issued but are not yet effective for the financial year beginning 1 January 2012 and have not been early adopted:

- HKAS 28 (revised 2011) "Investments in Associates and Joint Ventures" (effective from 1 January 2013)
- HKFRS 9 "Financial Instruments" (effective from 1 January 2015)
- HKFRS 10 "Consolidated Financial Statements" (effective from 1 January 2013)
- HKFRS 12 "Disclosures of Interests in Other Entities" (effective from 1 January 2013)
- HKFRS 13 "Fair Value Measurement" (effective from 1 January 2013)

2. FEE INCOME

Turnover and revenue consist of fees from investment management activities and fund distribution activities. Fee income comprises:

	Six months ended 30 June	
	2012	2011
	HK$'000	*HK$'000*
	Unaudited	Unaudited
Management fees	**228,302**	251,003
Performance fees	**905**	106,954
Front-end fees	**37,370**	26,713
Back-end fees	**–**	757
Total fee income	**266,577**	385,427

3. OTHER GAINS – NET

	Six months ended 30 June	
	2012	2011
	HK$'000	*HK$'000*
	Unaudited	Unaudited
Changes in fair value of investment properties	**15,000**	9,694
Gains on financial assets at fair value through profit or loss	**27,876**	29,824
Losses on financial assets at fair value through profit or loss	**(27,265)**	(5,444)
Net foreign exchange (losses)/gains	**(1,250)**	8,573
Total other gains – net	**14,361**	42,647

4. TAX EXPENSE

Under current tax laws of the Cayman Islands, there are no income, estate, corporation, capital gains or other taxes payable by the Group. As a result, no provision for income and capital gains taxes has been made in the condensed consolidated interim financial information.

Hong Kong profits tax has been provided on the estimated assessable profit for the six months ended 30 June 2012 at the rate of 16.5% (2011: 16.5%).

	Six months ended 30 June	
	2012	2011
	HK$'000	*HK$'000*
	Unaudited	Unaudited
Current tax		
Hong Kong profits tax	**14,574**	27,329
Overseas tax	**229**	699
Adjustments in respect of prior years	**(299)**	–
Total current tax	**14,504**	28,028
Deferred tax	**196**	73
Total tax expense	**14,700**	28,101

5. EARNINGS PER SHARE

The calculations of basic and diluted earnings per share are based on the profit attributable to equity holders of the Company of HK$88,158,000 (2011: HK$198,731,000).

The basic earnings per share is based on the weighted average number of shares in issue during the period of 1,755,202,800 (2011: 1,755,210,215). The diluted earnings per share is calculated by adjusting the weighted average number of shares in issue during the period of 1,755,202,800 (2011: 1,755,210,215) by 2,968,151 (2011: 27,929,928) to assume conversion of all dilutive potential ordinary shares granted under the Company's share option scheme.

6. DIVIDENDS

Dividends declared by the Company of HK$101,802,000 are related to the year ended 31 December 2011 and were paid on 21 May 2012. No interim dividend was proposed by the Board of Directors for the six months ended 30 June 2012 (2011: Nil).

7. INVESTMENTS

Investments include the following:

	Financial assets at fair value through profit or loss		Held-to-maturity financial assets		Available-for-sale financial assets		Total	
	30 June 2012	31 December 2011	**30 June 2012**	31 December 2011	**30 June 2012**	31 December 2011	**30 June 2012**	31 December 2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
	Unaudited	Audited	**Unaudited**	Audited	**Unaudited**	Audited	**Unaudited**	Audited
Listed securities (by place of listing)								
Debt securities – Hong Kong	**–**	–	**2,437**	2,458	**–**	–	**2,437**	2,458
Debt securities – Singapore	**–**	–	**244,015**	58,630	**–**	–	**244,015**	58,630
Investment funds – Hong Kong	**225,753**	196,599	**–**	–	**–**	–	**225,753**	196,599
Market value of listed securities	**225,753**	196,599	**246,452**	61,088	**–**	–	**472,205**	257,687
Unlisted securities (by place of incorporation/establishment)								
Debt securities – China	**–**	–	**85,156**	85,107	**–**	–	**85,156**	85,107
Equity securities – Singapore	**–**	–	**–**	–	**1,284**	1,187	**1,284**	1,187
Investment fund – Australia	**16,128**	–	**–**	–	**–**	–	**16,128**	–
Investment funds – Cayman Islands	**473,108**	571,424	**–**	–	**–**	–	**473,108**	571,424
Investment fund – Ireland	**75,427**	–	**–**	–	**–**	–	**75,427**	–
Investment funds – Luxembourg	**5,576**	5,873	**–**	–	**–**	–	**5,576**	5,873
Investment funds – Taiwan	**23,904**	22,908	**–**	–	**–**	–	**23,904**	22,908
Investment funds – United States	**24,995**	25,371	**–**	–	**10,600**	10,867	**35,595**	36,238
Fair value of unlisted securities	**619,138**	625,576	**85,156**	85,107	**11,884**	12,054	**716,178**	722,737
Derivative financial instruments								
Currency option contract	**–**	213	**–**	–	**–**	–	**–**	213
Total investments	**844,891**	822,388	**331,608**	146,195	**11,884**	12,054	**1,188,383**	980,637
Representing:								
Non-current	**819,343**	801,307	**331,608**	146,195	**11,884**	12,054	**1,162,835**	959,556
Current	**25,548**	21,081	**–**	–	**–**	–	**25,548**	21,081
Total investments	**844,891**	822,388	**331,608**	146,195	**11,884**	12,054	**1,188,383**	980,637

8. FEES RECEIVABLE

Fees receivable from investment management activities are mainly due at the end of the relevant valuation period of the investment funds and managed accounts. However, some of these fees receivable are only due after the relevant valuation period as a result of credit periods granted to certain investment funds and managed accounts which are generally within one month. The ageing analysis of fees receivable that were past due but not impaired is as follows:

	30 June 2012	31 December 2011
	HK$'000	*HK$'000*
	Unaudited	Audited
Fees receivable that were past due but not impaired		
1 – 30 days	**751**	1,421
31 – 60 days	**234**	455
	985	1,876
Fees receivable that were within credit period	**61,563**	59,551
Total fees receivable	**62,548**	61,427

9. CASH AND CASH EQUIVALENTS

	30 June 2012 *HK$'000* **Unaudited**	31 December 2011 *HK$'000* Audited
Cash at banks and in hand	**196,901**	1,266,858
Short-term bank deposits	**792,169**	47,505
Deposits with brokers	**7,207**	985
Total cash and cash equivalents	**996,277**	1,315,348

10. DISTRIBUTION FEE EXPENSES PAYABLE

The carrying amounts of distribution fee expenses payable approximate their fair value due to the short-term maturity. The ageing analysis of distribution fees payable is as follows:

	30 June 2012 *HK$'000* **Unaudited**	31 December 2011 *HK$'000* Audited
0 – 30 days	**24,080**	23,070
31 – 60 days	**1,236**	327
61 – 90 days	**471**	151
Over 90 days	**247**	385
Total distribution fee expenses payable	**26,034**	23,933

11. ISSUED EQUITY

	Number of shares	**Issued equity** *HK$'000*
Unaudited		
As at 1 January 2011	1,752,192,981	866,717
Share issued upon exercise of share options	5,210,819	28,659
As at 30 June 2011	1,757,403,800	895,376
Unaudited		
As at 1 January 2012 and 30 June 2012	**1,755,202,800**	**889,213**

REPORT OF THE CHIEF EXECUTIVE OFFICER

In the first half of 2012, volatility remained in global stock markets, and investors across asset classes became increasingly concerned about macro events. Uncertainty over the Eurozone crisis, the stalling US economic recovery and a slowdown in China's growth dampened market sentiments.

Despite the challenging industry landscape, we are pleased that the Group's business remained profitable, with our assets under management ("AUM") staying resilient. Going forward, as we build Value Partners into a world-class, independent fund house in the region, we will continue to focus on delivering strong long-term performance, expanding our distribution, diversifying our global investor base, and capturing asset management opportunities in mainland China.

Steady AUM, lowered performance fee

Our AUM stayed flat by the end of the review period at US$7.2 billion. We are grateful for the undeterred support from our clients amidst tough market condition, which helped us achieve net subscriptions of US$71 million, against a mild net redemption of US$54 million in the second half of 2011.

For the first half of 2012 ended 30 June, our total revenue was HK$266.6 million and our primary source of income, management fees, retreated relatively mildly due to the decrease in average AUM by 10.9% compared with the first half last year. Our management fee margin stayed steady in the period and there are comparatively more inflows into our own branded funds. The profit attributable to our equity holders amounted to HK$88.2 million, a 55.6% decrease from the same period last year, which was primarily due to a significant drop in performance fees.

Performance fee, which used to contribute to the Group's income, saw a substantial reduction of HK$106.1 million as most of the funds with performance fee crystallizing in the first half of the year did not exceed their high watermark (HWM) or benchmark. Value Partners' flagship Classic Fund[1], a more aggressive product designed to leverage the power of value investing, recorded a loss of 3.4% in the six-month period; while Value Partners High-Dividend Stocks Fund[2] ("High-Dividend Stocks Fund"), the Group's second largest public fund in Hong Kong with a more defensive strategy, managed to stay resilient with a net gain of 7.5% in the six-month period. Since the performance fee crystallization for most of our major own-branded funds is at the end of the year, the performance of our relevant funds in the second half of the year would determine whether we can collect further performance fees in the year 2012.

Stay focused on our priorities

At Value Partners, we are proactively positioning ourselves against the headwinds facing the industry. In light of the challenging market environment which has a bearing on our fund returns, going forward, we will remain very focused on our priorities as set out below:

i) Maintaining long-term performance

Value Partners is determined to deliver sustainable, superior fund performance with strong and original on-the-ground research in the Asia Pacific region. In the recent few years, we have aggressively expanded our investment management team to around 40 people, and put local professionals on the ground in mainland China to enhance our research capabilities. Our team conducts about 2,500 company visits every year (excluding phone interviews). While the short-term market cycle may not be in our favor, we believe value investing will prevail, and we will reap results for our investors over time – history witnessed that we have weathered seven financial crises regionally and globally in our two-decade investment journey. Our flagship Classic Fund is a case in point to illustrate how value investing might yield over the long term. The fund's Class A units[1] (launched on 1 April 1993) has made an annualized return of 16.2% with low annualized volatility of 22.7% as of the end of June this year over a 20-year period since inception in 1993 – made possible by our discipline in the conventional value investing approach. For reference, the annualized returns of the Hang Seng and MSCI China indices over the same period were 7.4% and -1.3%, while the annualized volatility was 28.2% and 37.4%, respectively. The fund's performance was recognized last year in the AsiaHedge Awards, in which the fund won the special Long-Term Performance Award (10 years)[3].

As the "Temple of Value Investing" in Asia, we continue to receive industry recognition that attest to our investment success. Mr. Cheah Cheng Hye and Mr. Louis So, the Co-Chief Investment Officers ("Co-CIO"), received the "CIO of the Year in Asia" award from Asia Asset Management as co-winners. In the Lipper Fund Awards 2012 (Hong Kong)[4] held in March, we received the Best Equity Group (3 Years) title out of more than 30 fund companies. In *Institutional Investor* magazine's Asia Hedge Fund 25, Value Partners tops the list as the largest Asia-based single-manager hedge fund firm for the third consecutive year in July 2012. Moving forward, we will continue to enhance our investment process and strengthen our proprietary research to deliver consistent and strong long-term performance.

ii) Strengthened distribution channels

Over the years, Value Partners has successfully leveraged our strong branding as the Asian value investing expert to establish a solid foothold in Hong Kong's retail market. By the first half, we have signed up all major first-tier retail banks as our fund distributors.

Yet, we continued to deepen and broaden our sources of fund inflows. Asia Pacific now has the world's largest high-net-worth population, and the private banking channel has become increasingly important to asset managers. We have signed up all major private banks and are now further enhancing the product penetration of our other funds on top of our flagship fund, and successfully put our High-Dividend Stocks Fund (net inflow of US$75 million in the period) and a new fund focused on Greater China high yield investments[5] (net inflow of US$63 million in the period) on some of the most prestigious private banking platforms in the region. Going forward, we will also focus on expanding our relationships with major insurance and bancassurance companies. These are the channels where we continue to see inflows of sticky money and contribute significantly to our AUM. The pension fund we manage for a local retirement scheme, for example, had US$70 million inflow in the review period.

iii) Expanding global investor base

On the institutional front, we continue to broaden and deepen our relationships with institutional investors in key markets, namely the United States and Europe, which have brought us stable inflows for first half of 2012. Despite the global headwinds, we are grateful that many of our institutional investors are long term investors who place high confidence in Value Partners and the opportunities in China. Nonetheless, we continue to closely monitor investor trends globally to identify new business opportunities, while ensuring our existing investors are served by the highest standards. For instance, in light of the difficult situation in Europe, we have focused more of our institutional sales efforts on selective countries in Europe that are less affected by the crisis. In the United States, some institutional investors continue to look for equity exposure in the region with lesser volatility, hence our equity long-short hedge fund presents great appeal to these investors.

As demand for higher investment exposure to Asia, particularly the Greater China region, continues to grow, we have launched a UCITS-compliant fund[5] which is designed based on the well-tested investment approach of our Classic Fund. Anticipating the needs of our global institutional clients, we will continue to offer investment solutions tailored to meet their investment objectives through our pooled investment vehicles or segregated portfolio solutions.

In terms of our exchange-traded fund ("ETF") product suite, three new value-styled ETFs were launched in May, namely Value Japan ETF, Value Taiwan ETF and Value Korea ETF. These single-country ETFs, which track their respective underlying indices designed with the aim to capture value opportunities in the three markets, saw US$31 million inflows in May this year. With our growing presence in the ETF landscape, we garnered the "Highly Commended ETF House" award in The Asset Triple A Investment Awards for the Hong Kong locality, announced on 14 August 2012.

Capturing business opportunities in mainland China

For our fund management joint venture in mainland China, Value Partners Goldstate Fund Management Company Limited ("VP Goldstate"), 49% of stake was acquired in March 2012, marking an important step in the Group's regional development. The amount of capital involved in this acquisition was relatively small at HK$50 million. As of the end of June, VP Goldstate had 66 staff members and RMB1.1 billion (US$179 million) AUM. We believe that with the various measures the joint venture's management have taken – strengthening of the management team, bringing in value-investing expertise to boost fund performance and actively building up the brand locally – the firm's business will gradually grow and the investment will contribute to the Group's bottom line over time. By the time of writing, VP Goldstate's first public equity fund post-acquisition[5], which is still gathering assets, already raised a solid RMB732 million (US$115 million) in July alone.

As China gradually liberalizes its capital accounts and reforms the financial system, we believe its fund market will continue to thrive. The mutual fund industry AUM in China is estimated to reach RMB6.8 trillion (US$1 trillion) by 2015 from RMB2.3 trillion (US$360 billion) in June 2012[6]. We see huge opportunities as ties between the mainland and Hong Kong grow closer under the Closer Economic Partnership Arrangement (CEPA). Furthermore, as the mainland becomes a capital exporter, Hong Kong's asset management industry is set to benefit from its advantage as the focal point of this capital flow which is evidenced in China's recent move to allocate sovereign wealth fund assets to foreign managers, as well as allowing foreign managers to manage insurance assets. Our latest business development in the China market is in the Qianhai Bay Economic Zone, within a half-hour commuting radius of Hong Kong situating on the outskirts of Shenzhen. Qianhai is a pilot area to be built into an international financial hub with a mandate to spearhead RMB internationalization. We expect to work closely with the authorities in the coming years to capitalize on the favorable policies introduced in Qianhai and realize the business potential there.

Corporate updates

In the period under review, our Co-CIO Mr. Louis So was appointed Deputy Chairman of the Group while retaining the Co-CIO position; and I assumed the role of Chief Executive Officer. Such changes are in line with the Group's long-term objective to uphold strong governance and performance excellence.

Last but not least, we would like to thank our colleagues whose dedication and hard work have contributed to Value Partners' continued success. In continuation of our client-centric culture, our team will remain committed to serving the needs of our clients, and partner with them to embrace the challenges ahead.

TSE Wai Ming, Timothy, CFA
Chief Executive Officer
Executive Director

1 *Performance of Value Partners Classic Fund (A Units) over past five years: 2007: +41.1%; 2008: -47.9%; 2009: +82.9%; 2010: +20.2%; 2011: -17.2%; 2012 (YTD as at 30 June 2012): -3.4%. Performance figures are calculated in US dollars on NAV to NAV, with dividends reinvested. Performance data is net of all fees.*

2 *Performance of Value Partners High-Dividend Stocks Fund over past five years: 2007: +44.2%; 2008: -46.8%; 2009: +82.8%; 2010: +25.8%; 2011: -11.9%; 2012 (YTD as at 30 June 2012): +7.5%. Performance figures are calculated in US dollars on NAV to NAV, with dividends reinvested. Performance data is net of all fees.*

3 *Value Partners Classic Fund is not authorized as a hedge fund by the Securities and Futures Commission (SFC) in Hong Kong according to the Code on Unit Trusts and Mutual Funds. SFC authorization is not a recommendation or endorsement of a scheme, nor does it guarantee the commercial merits of a scheme or its performance. It does not mean the scheme is suitable for all investors, nor is it an endorsement for its suitability for any particular investor or class of investors.*

4 *All awards based on data as of year-end 2011.*

5 *Not authorized by the SFC and not available for public distribution in Hong Kong.*

6 *"China: The World's Best Opportunity for Asset Managers?" (May 2012) by Citi and Z-BEN Advisors.*

FINANCIAL REVIEW

Despite the challenging external environment, the Group managed to maintain a strong financial position with AUM stably held at US$7.2 billion as at 30 June 2012. The Group's business continued to be profitable but a decline was recorded in performance fees, as most of the funds with performance fee crystallizing in the first half of year 2012 did not exceed their high watermark or benchmark. With fewer performance fees collected, the Group's revenue declined by 30.8% to HK$266.6 million for the period (1H 2011: HK$385.4 million). Profit attributable to equity holders of the Company for the first half of 2012 was HK$88.2 million, marking a 55.6% decrease from the same period last year (1H 2011: HK$198.7 million). Since the performance fee crystallization for most of our major own branded funds is at the end of the year, the performance of our funds in the second half of the year would determine whether we can collect further performance fees in 2012.

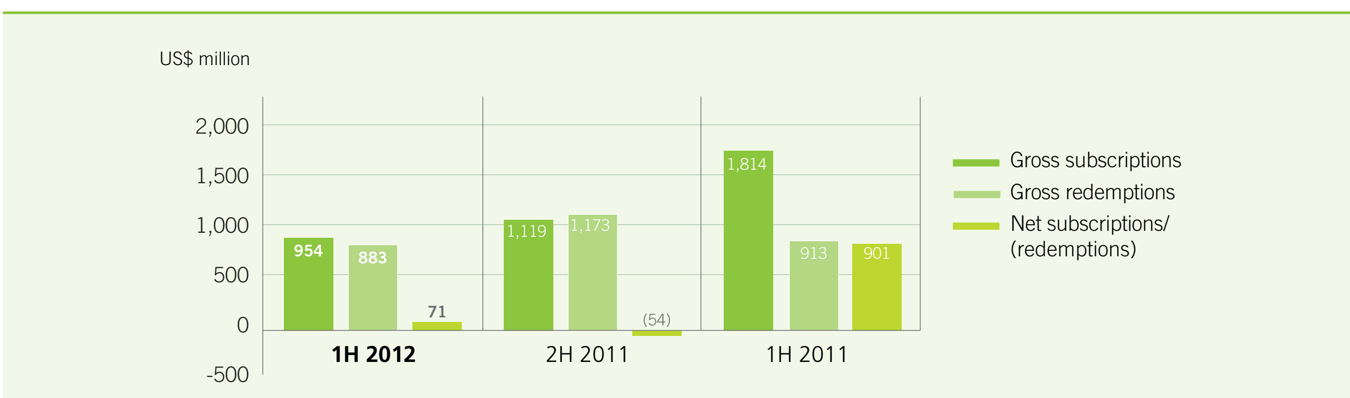
Assets Under Management

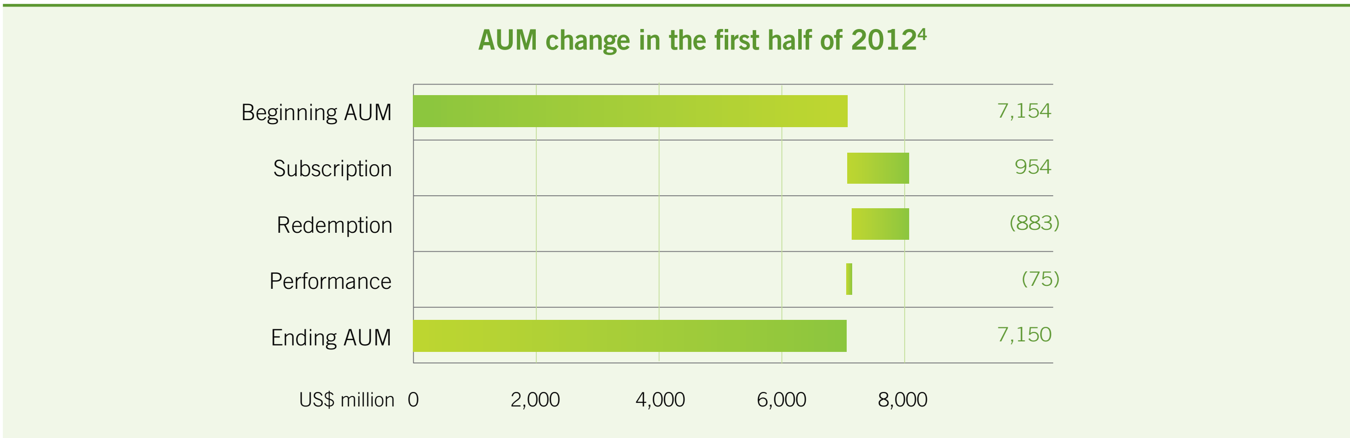
AUM and return

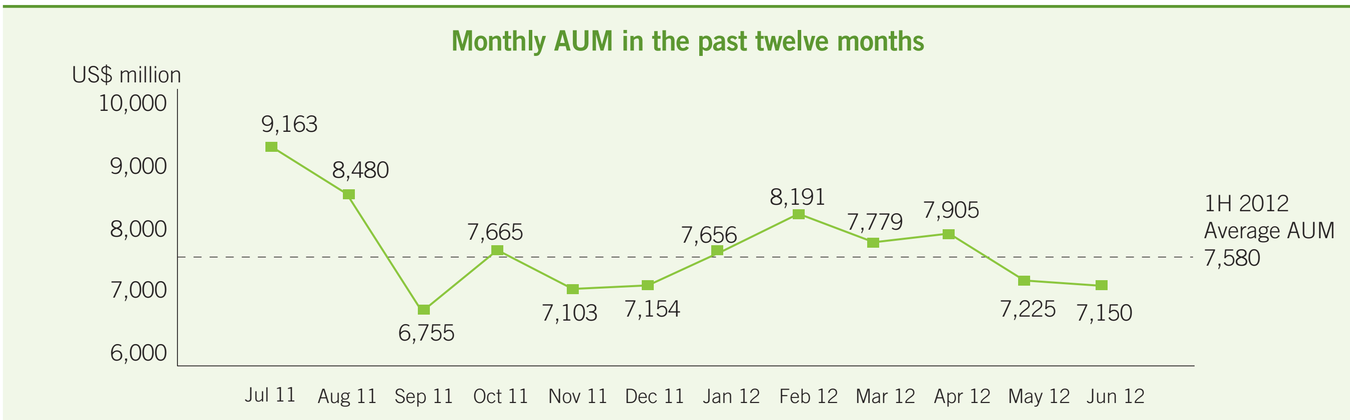
The Group's AUM amounted to US$7,150 million at the end of June 2012, at par with the size at the end of 2011. In the period under review, the Group recorded net subscriptions of US$71 million.

Our overall fund performance, as calculated in asset-weighted average return of funds under management, retreated 1.0% in the first half of 2012. For reference, Value Partners' flagship Classic Fund[1], a more aggressive product designed to leverage the power of value investing, recorded a loss of 3.4% in the six-month period; while Value Partners High-Dividend Stocks Fund[2], the Group's second largest public fund in Hong Kong with a more defensive strategy, managed to stay resilient with a net gain of 7.5% in the six-month period.

Gross subscriptions in the first half of 2012 amounted to US$954 million, fewer than in the second half of 2011 (US$1,119 million) as weakened market sentiment weighed on investor activity. On the other hand, redemptions reduced to US$883 million[3] compared to US$1,173 million in the second half of 2011. All in all, we were able to have a small net subscriptions of US$71 million (2H 2011: net redemptions of US$54 million) despite market volatility which dampened investor appetite.



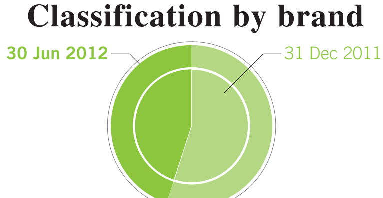




AUM by category

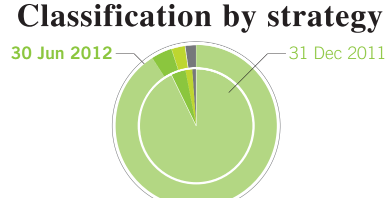
The charts below provide an analysis of the Group's AUM as at 30 June 2012 by three different classifications: brand, strategy and fund type. For the period under review, our product mix by brand remained stable, and own branded funds accounted for 55% of our total AUM at period-end (2011: 55%). By strategy, our Absolute Return Long-biased Funds continued to represent the majority of our funds (91%), while our Quantitative Funds & ETFs recorded an increase due to our newly launched ETFs during the current period. Besides, our newly launched fund, which focuses on Greater China high yield investments[5] also contributed to the increase in fixed income and credit strategy. In terms of fund type, Hong Kong Securities and Futures Commission ("SFC") authorized funds[6] (i.e. public funds in Hong Kong) maintained the largest portion of our AUM (77%).

Classification by brand



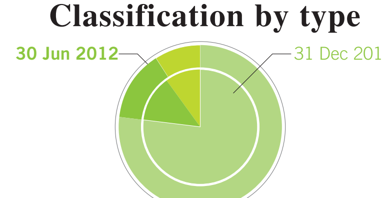
	30 Jun 2012	31 Dec 2011
Own Branded Funds	**55%**	55%
White Label & Co-branded Funds	**45%**	45%

Classification by strategy



	30 Jun 2012	31 Dec 2011
Absolute Return Long-biased Funds	**91%**	93%
Long-short Hedge Funds	**4%**	4%
Quantitative Funds & ETFs	**3%**	2%
Fixed Income & Credit Funds	**2%**	1%

Classification by type

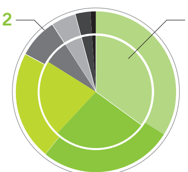


	30 Jun 2012	31 Dec 2011
SFC authorized Funds[6]	**77%**	77%
Non-SFC authorized Funds	**14%**	13%
Managed Accounts	**9%**	10%

Client base

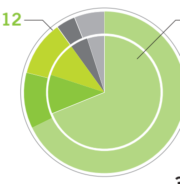
Institutional clients – including institutions, pension funds, high-net-worth individuals (HNWs), endowments and foundations, funds of funds, and family offices and trusts – remained the Group's primary set of fund investors, accounting for 78% of our AUM. In particular, the increase in HNWs is attributable to expanded business relationship with private banks in the region. The proportion of funds coming from retail investors remained stable and accounted for 22% of the AUM. By geographical region, Hong Kong clients accounted for 68% of the Group's AUM (2011: 69%), while the percentage of clients in the United States and Europe was 22% (2011: 21%).

Client analysis by type



	30 Jun 2012	31 Dec 2011
Institutions	**34%**	35%
Pension funds	**27%**	27%
Retail	**22%**	22%
High-net-worth individuals	**8%**	7%
Endowments & foundations	**5%**	5%
Funds of funds	**3%**	3%
Family offices & trusts	**1%**	1%

Client analysis by geographical region



	30 Jun 2012	31 Dec 2011
Hong Kong	**68%**	69%
United States	**11%**	11%
Europe	**11%**	10%
Australia	**4%**	5%
Others	**6%**	5%

Summary of results

The key financial highlights for the reporting period are as follows:

(In HK$ million)	1H 2012	1H 2011	% Change
Total revenue	**266.6**	385.4	-30.8%
Gross management fees	**228.3**	251.0	-9.0%
Gross performance fees	**0.9**	107.0	-99.2%
Profit attributable to equity holders of the Company	**88.2**	198.7	-55.6%
Basic earnings per share (HK cents)	**5.0**	11.3	-55.8%
Diluted earnings per share (HK cents)	**5.0**	11.1	-55.0%
Interim dividend per share	**Nil**	Nil	

Revenue and fee margins

Breakdown of total net income

(In HK$ million)	1H 2012 Core[7]	1H 2012 Others[7]	1H 2012 Total	1H 2011 Total[7]
Fee income	**266.0**	**0.6**	**266.6**	385.4
Management fees	**227.7**	**0.6**	**228.3**	251.0
Performance fees	**0.9**	**–**	**0.9**	107.0
Other revenue	**37.4**	**–**	**37.4**	27.4
Distribution and advisory fee expenses	**(86.4)**	**(0.0)**	**(86.4)**	(80.6)
Management fees rebate	**(50.6)**	**(0.0)**	**(50.6)**	(51.1)
Performance fees rebate	**(0.0)**	**–**	**(0.0)**	(3.9)
Other revenue rebate	**(35.8)**	**–**	**(35.8)**	(25.6)
Other income	**19.8**	**5.6**	**25.4**	13.3
Total net income	**199.4**	**6.2**	**205.6**	318.1

The Group's total revenue decreased by 30.8% to HK$266.6 million for the six months ended 30 June 2012 (1H 2011: HK$385.4 million). The major contribution to our revenue was gross management fees, which dropped to HK$228.3 million (1H 2011: HK$251.0 million) as a result of a 10.9% decrease in the Group's average AUM to US$7,580 million (1H 2011: US$8,504 million). With comparatively higher fund inflows from distribution channels into our Own Branded Funds, annualized gross management fee margin increased to 78 basis points (1H 2011: 76 basis points). The distribution and advisory fee expenses paid to channels increased correspondingly by 7.2% to HK$86.4 million (1H 2011: HK$80.6 million), resulting in a less significant increase of 1 basis point in annualized net management fee margin (1H 2012: 61 basis points; 1H 2011: 60 basis points).

Gross performance fees, another source of revenue, amounted to HK$0.9 million, representing a HK$106.1 million decrease (1H 2011: HK$107.0 million). The decline was primarily due to the performance of the Group's funds, most of which crystallizing in the first half of 2012 did not exceed their high watermark or benchmark. Since the performance fee crystallization for most of our major own branded funds is at the end of the year, the performance of our funds in the second half of the year would determine whether we can collect further performance fees in 2012.

Other revenue includes front-end load and back-end load, with a substantial amount of front-end load rebated to distribution channels.

Other income, which mainly comprised dividend income and interest income, increased to HK$25.4 million (1H 2011: HK$13.3 million). Dividend income decreased to HK$2.5 million (1H 2011: HK$5.1 million), while interest income rose to HK$21.7 million (1H 2011: HK$2.9 million) due to the increase in the value of bank deposits and interest-bearing bonds investments.

Other gains and losses

Breakdown of other gains – net

(In HK$ million)	1H 2012 Core[7]	1H 2012 Others[7]	1H 2012 Total	1H 2011 Total[7]
Changes in fair value of investment properties	**15.0**	**–**	**15.0**	9.7
Gains on financial assets at fair value through profit or loss	**27.9**	**–**	**27.9**	29.8
Losses on financial assets at fair value through profit or loss	**(27.3)**	**–**	**(27.3)**	(5.4)
Net foreign exchange (losses)/gains	**(1.2)**	**–**	**(1.2)**	8.5
Other gains – net	**14.4**	**–**	**14.4**	42.6

Gains and losses on financial assets at fair value through profit or loss comprises fair value changes and realized gains or losses on our fund investments and other short term investments.

Cost management

Breakdown of total expenses

(In HK$ million)	1H 2012 Core[7]	1H 2012 Others[7]	1H 2012 Total	1H 2011 Total[7]
Compensation and benefit expenses	**66.2**	**9.9**	**76.1**	100.0
Fixed salaries and staff benefits	**48.8**	**9.9**	**58.7**	43.5
Management bonus	**15.4**	**–**	**15.4**	48.7
Staff rebates	**1.2**	**–**	**1.2**	2.3
Share-based compensation expenses	**0.8**	**–**	**0.8**	5.5
Other expenses	**34.9**	**5.8**	**40.7**	31.6
Other fixed operating costs	**24.0**	**4.3**	**28.3**	22.3
Sales and marketing	**6.6**	**1.1**	**7.7**	5.7
Depreciation	**2.5**	**0.4**	**2.9**	2.2
Non-recurring expenses	**1.8**	**–**	**1.8**	1.4
Total expenses	**101.1**	**15.7**	**116.8**	131.6

The Group's management continued to exercise stringent cost discipline and aimed to keep fixed operating expenses well covered by its net management fee income, a relatively stable income source. We measure this objective with the "fixed cost coverage ratio", an indicator of how many times fixed operating expenses are covered by net management fee income. For the current period, the Group's fixed cost coverage (for asset management business) was 2.1 times.

Compensation and benefit expenses

Fixed salaries and staff benefits increased by HK$15.2 million compared with the same period last year to HK$58.7 million (1H 2011: HK$43.5 million). The increase was mainly attributable to the salary and headcount costs incurred by non-wholly owned subsidiaries in Taiwan, Chengdu and Yunnan, which amounted to HK$9.9 million, while salary increment also added to the rise in fixed salaries and staff benefits in Hong Kong.

Management bonuses amounted to HK$15.4 million for the current period (1H 2011: HK$48.7 million). This is consistent with the Group's compensation policy, which distributes 20% to 23% of the net profit pool every year as a management bonus to employees (prior to 2010: 25%). The net profit pool comprises net profit before management bonus and taxation, and after certain adjustments. This discretionary bonus promotes staff loyalty and performance, while aligning the interests of employees with those of shareholders.

Staff rebates decreased to HK$1.2 million (1H 2011: HK$2.3 million). Staff are entitled to partial rebates of management fees and performance fees when investing in the funds managed by the Group.

The Group also recorded expenses of HK$0.8 million relating to stock options granted to employees. This expense item had no impact on cash flow and is recognized in accordance with Hong Kong Financial Reporting Standards.

Other expenses

Other non-staff-related operating costs such as rent, legal & professional fees, investment research and other administrative and office expenses, amounted to HK$28.3 million (1H 2011: HK$22.3 million). The increase is attributable to the HK$4.3 million incurred by our non-wholly owned subsidiaries.

Sales and marketing expenses increased to HK$7.7 million for the current period (1H 2011: HK$5.7 million) as a result of increased spending on advertising for new products launch and distributor sponsorship, following the expansion of our distribution network.

Non-recurring expenses mainly consisted of donations. The Group entered into a partnership with the Hong Kong University of Science and Technology ("HKUST") in 2011, and launched the "Value Partners Center for Investing at the HKUST Business School", for which the Group pledged a donation of up to HK$10.0 million over five years and HK$1.8 million was donated during the current period.

Net profit and core earnings

Profit attributable to equity holders of the Company came to HK$88.2 million (1H 2011: HK$198.7 million), and core earnings fell by 61.8% to HK$66.7 million (1H 2011: HK$174.6 million). Core earnings measure the Group's core operating performance and exclude non-recurring and non-operating items, such as the mark-to-market gain or loss of the Group's investments in its own funds and mark-to-market gain on investment property. The decrease in core earnings was mainly due to the decline in performance fees earned.

Other developments

In March 2012, we acquired a 49% stake in KBC Goldstate Fund Management Company Limited and the company was subsequently renamed as Value Partners Goldstate Fund Management Company Limited ("VP Goldstate[8]"). The capital involved amounted to HK$49.9 million. As at end of June, VP Goldstate had 66 staff members and RMB1.1 billion (US$179 million) AUM. VP Goldstate's first public equity fund post-acquisition[5], which is still gathering assets, raised a solid RMB732 million (US$115 million) in July 2012.

The acquisition of 55.46% stake of KBC Concord Asset Management Company Limited, a Taiwan fund management firm, was completed in August 2011, and was renamed as Value Partners Concord Asset Management Company Limited ("VP Concord"). We subsequently raised our stake to slightly over 60% for NT$318.9 million in total. As at the end of June, VP Concord had 23 staff members and TWD1.1 billion (US$35 million) AUM. In June 2012, VP Concord launched a new fixed income fund[5] with TWD875 million (US$29 million) AUM at of end of June.

Chengdu Vision Credit Limited ("Vision Credit"), our joint venture company to operate and develop small loan business in Chengdu, Sichuan Province in China, was formed in November 2011. We own 90% of the joint venture, which has registered capital of RMB300.0 million. Vision Credit has completed the development phase and is planning to commence business in the second half of 2012.

Dividends

The Group has been practising a more consistent dividend distribution policy that takes into account the relatively volatile nature of asset management income streams. This policy states that dividends (if any) will be declared once a year at the end of each financial year to better align them with the Group's full-year performance. Barring any unexpected changes in the market environment, we expect that a final dividend (but not interim dividend) will be declared this year.

Liquidity and financial resources

Fee income is the Group's main source of income, while other income sources include interest income generated from bank deposits and dividend income from investments held. During the period, the Group's balance sheet and cash flow positions remained strong, with a net cash balance of HK$996.3 million. Net cash inflows from operating activities amounted to HK$38.1 million, and the Group had no bank borrowings and did not pledge any assets as collateral for overdrafts or other loan facilities. The debt-to-equity ratio (interest bearing external borrowings divided by shareholders' equity) stood at zero, while the current ratio (current assets divided by current liabilities) came to 12.4 times.

Capital structure

As at 30 June 2012, the Group's shareholders' equity and total number of shares in issue for the Company stood at HK$2,404.6 million and 1.76 billion, respectively.

1 *Performance of Value Partners Classic Fund (A Units) over past five years: 2007: +41.1%; 2008: -47.9%; 2009: +82.9%; 2010: +20.2%; 2011: -17.2%; 2012 (YTD as at 30 June 2012): -3.4%. Performance figures are calculated in US dollars on NAV to NAV, with dividends reinvested. Performance data is net of all fees.*

2 *Performance of Value Partners High-Dividend Stocks Fund over past five years: 2007: +44.2%; 2008: -46.8%; 2009: +82.8%; 2010: +25.8%; 2011: -11.9%; 2012 (YTD as at 30 June 2012): +7.5%. Performance figures are calculated in US dollars on NAV to NAV, with dividends reinvested. Performance data is net of all fees.*

3 *Includes cash distributions and return of capital which amounted to US$14 million in the first half of 2012.*

4 *Excludes AUM of Value Partners Goldstate Fund Management Company Limited ("VP Goldstate"), in which the Group holds an ownership interest of 49%.*

5 *Not authorized by the SFC and not available for public distribution in Hong Kong.*

6 *SFC authorization is not a recommendation or endorsement of a scheme nor does it guarantee the commercial merits of a scheme or its performance. It does not mean the scheme is suitable for all investors nor is it an endorsement of its suitability for any particular investor or class of investors.*

7 *"Core" refers to the Group's wholly owned subsidiaries while "Others" refers to non-wholly owned subsidiaries in Taiwan, Chengdu and Yunnan. Since the acquisitions or formation of non-wholly owned subsidiaries were completed in the second half of 2011, there was no corresponding profit and loss impact in the first half of 2011.*

8 *The investment in VP Goldstate is recorded as interest in an associate and its operating results were not consolidated. The share of gain/loss was recorded under "share of loss of an associate".*

OTHER INFORMATION

Dividend

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2012 (six months ended 30 June 2011: Nil).

Foreign Exchange

Except for its Renminbi-denominated bank deposit in China, which has a balance of around HK$368 million, the Group has no significant foreign currency exposure because the majority of receipts and payments as well as assets and liabilities are denominated in the Hong Kong dollar (the Company's functional and presentation currency) and the United States dollar, which is linked to the Hong Kong dollar.

Human Resources

As at 30 June 2012, the Group employed a total of 114 staff (30 June 2011: 121) in Hong Kong and the research office in Shanghai, 23 staff (30 June 2011: nil) in Taiwan, 10 staff (30 June 2011: nil) in Chengdu and 8 staff (30 June 2011: nil) in Yunnan. Competitive remuneration packages that take into account business performance, market practices and competitive market conditions are offered to employees in compensation for their contribution. In addition, share options are granted and discretionary bonuses are also given based on the Group's and individual staff's performances.

Purchase, Sale or Redemption of the Company's Securities

Neither the Company nor any of its subsidiaries have purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2012.

Audit Committee

In compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), the Company has an audit committee which comprises three Independent Non-executive Directors. The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including a review of the unaudited interim results of the Group for the six months ended 30 June 2012.

Independent Review of Interim Results

The unaudited interim results of the Group for the six months ended 30 June 2012 have been reviewed by PricewaterhouseCoopers, the Company's Auditor in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity".

Corporate Governance

The Company is committed to maintaining high standards of corporate governance. As corporate governance requirements change from time to time, the Board periodically reviews its corporate governance practices to meet the rising expectations of shareholders and to comply with increasingly stringent regulatory requirements. In the opinion of the Directors, the Company applied the principles and complied with the relevant code provisions in the Code on Corporate Governance Practices (effective until 31 March 2012) and Corporate Governance Code (effective from 1 April 2012) as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2012.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as contained in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' securities transactions.

The Company has made specific enquiry with all Directors and all of them confirmed that they have complied with the required standard set out in the Model Code for the six months ended 30 June 2012.

Publication of Interim Results and Interim Report on the Stock Exchange

The interim results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.valuepartners.com.hk). The interim report will be despatched to the shareholders and will be available on the websites of the Stock Exchange and the Company in due course.

Our Appreciation

Finally, we would like to express our gratitude to the Shareholders, business partners, distributors and customers for their unfaltering support. We would also like to thank our dedicated staff for their contributions to the success of the Group.

By order of the board of
Value Partners Group Limited
TSE Wai Ming, Timothy, CFA
Chief Executive Officer and Executive Director

Hong Kong, 21 August 2012

As of the date of this Announcement, our Directors are Mr. Cheah Cheng Hye, Ms. Hung Yeuk Yan Renee, Mr. So Chun Ki Louis and Mr. Tse Wai Ming, Timothy as Executive Directors and Dr. Chen Shih Ta Michael, Mr. Lee Siang Chin and Mr. Nobuo Oyama as Independent Non-executive Directors.