Value Partners

Investing through discipline

VALUE PARTNERS GROUP LIMITED

惠理集團有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 806)

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2008

FINANCIAL HIGHLIGHTS

- Total revenue was HK$421.9 million (2007: HK$2,540.8 million)
- Gross management fees were HK$331.4 million (2007: HK$436.6 million)
- Gross performance fees were HK$69.4 million (2007: HK$2,075.6 million)
- Net profit was HK$66.6 million (2007: HK$1,419.5 million)
- Earnings per share were HK4.2 cents (2007: HK88.7 cents)
- Final dividend per share was nil (2007: HK26.6 cents per share plus a special dividend of HK8.9 cents per share)

FINAL 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 year ended 31 December 2008 together with comparative figures for the year ended 31 December 2007. The following financial information, including the comparative figures, has been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accounts (the "HKFRS").

CONSOLIDATED INCOME STATEMENT

	Note	For the year ended 31 December **2008** *HK$'000*	2007 *HK$'000*
Income			
Revenue	*2*	**421,860**	2,540,757
Other income	*2*	**37,523**	71,261
Total income		**459,383**	2,612,018
Expenses			
Distribution fees		**49,205**	199,862
Compensation and benefit expenses	*3*	**199,115**	614,833
Operating lease rentals		**9,808**	9,544
Advisory fees		**11,923**	67,139
Other expenses	*4*	**38,665**	85,379
Total expenses		**308,716**	976,757
Other (losses)/gains — net	*5*	**(58,161)**	20,088
Operating profit		**92,506**	1,655,349
Share of loss of joint ventures		**—**	(203)
Profit before tax		**92,506**	1,655,146
Tax expense	*6*	**(25,908)**	(235,618)
Profit for the year		**66,598**	1,419,528
Attributable to			
Equity holders of the Company		**66,598**	1,419,528
Earnings per share (HK cents per share)			
— basic	*7*	**4.2**	88.7
— diluted	*7*	**4.2**	88.7
Dividends *(HK$'000)*			
— by the Company	*8*	**88,000**	568,000
— by Value Partners Limited	*8*	**—**	660,000
Total dividends		**88,000**	1,228,000

CONSOLIDATED BALANCE SHEET

	Note	As at 31 December 2008 HK$'000	2007 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment		**4,165**	6,372
Intangible assets		**1,635**	2,034
Investments	*9*	**146,757**	228,064
Deferred tax assets		**259**	—
Other assets		**1,746**	1,746
Total non-current assets		**154,562**	238,216
Current assets			
Investments	*9*	**7,596**	9,076
Fees receivable	*10*	**33,359**	1,696,603
Prepayments and other receivables		**11,439**	18,325
Cash and cash equivalents	*11*	**562,165**	745,088
Total current assets		**614,559**	2,469,092
Total assets		**769,121**	2,707,308
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital and share premium		**53,767**	53,767
Other reserves		**131,108**	100,146
Retained earnings			
— proposed dividends	*8*	**—**	568,000
— others		**557,212**	491,901
Total equity		**742,087**	1,213,814
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities		**—**	126
Current liabilities			
Accrued bonus		**7,982**	537,552
Distribution fees payable	*12*	**9,706**	151,667
Other payables and accrued expenses		**8,676**	45,287
Current tax liabilities		**670**	98,862
Dividends payable		**—**	660,000
Total current liabilities		**27,034**	1,493,368
Total liabilities		**27,034**	1,493,494
Total equity and liabilities		**769,121**	2,707,308
Net current assets		**587,525**	975,724
Total assets less current liabilities		**742,087**	1,213,940

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Basis of preparation

On 26 October 2007, the Company issued ordinary shares to the then shareholders of Value Partners Limited in exchange for all their interests in Value Partners Limited and thereafter became the immediate and ultimate holding company of the subsidiaries now comprising the Group in preparation for the listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited ("the Stock Exchange"). For the purpose of these consolidated financial statements, the share swap between the Company and Value Partners Limited is accounted for as a reverse acquisition where Value Partners Limited is regarded as the acquirer and the Company is regarded as the acquiree. In addition, the consolidated financial statements of the Company prepared following the reverse acquisition represent a continuation of the consolidated financial statements of Value Partners Limited.

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKFRS").

Certain new standards, amendments to existing standards or interpretations have been published that are mandatory for the financial year beginning 1 January 2008. Those that are relevant to the Group's operations are as follows:

HKAS 39 (Amendment)	Financial Instruments: Recognition and Measurement — Amendment on Reclassification of Financial Assets
HK(IFRIC)-Int 11	HKFRS 2 — Group and Treasury Share Transactions

These new standards, amendments or interpretations to existing standard do not have any impact on the Group's consolidated financial statements.

Standards which are not yet effective

Certain new standards, amendments to existing standards or interpretations have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods, but the Group has not early adopted them. Those that are relevant to the Group's operations are as follows:

HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 32 (Amendment)	Financial Instruments: Presentation
HKAS 1 (Amendment)	Presentation of Financial Statements and Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 2 (Amendment)	Share-based Payment
HKFRS 3 (Revised)	Business Combinations
HKFRS 8	Operating Segments

The Hong Kong Institute of Certified Public Accountants' improvements to HKFRS published in October 2008

HKAS 1 (Amendment)	Presentation of Financial Statements
HKAS 19 (Amendment)	Employee Benefits
HKAS 28 (Amendment)	Investments in Associates
HKAS 36 (Amendment)	Impairment of Assets
HKAS 38 (Amendment)	Intangible Assets
HKAS 39 (Amendment)	Financial Instruments: Recognition and Measurement

There are a number of minor amendments of HKFRS 7 "Financial Instruments: Disclosures", HKAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", HKAS 10 "Events After the Balance Sheet Date", HKAS 18 "Revenue" and HKAS 34 "Interim Financial Reporting" which are not addressed above. These amendments are unlikely to have an impact on the Group's financial statements and have therefore not been analysed in detail.

The Directors anticipate that the application of these new standards and amendments to existing standard will not have material impact to the results and the financial position of the Group.

2 Income

Turnover and revenue consist of fees from investment management activities and fund distribution activities. Income recognised is as follows:

	2008	2007
	HK$'000	*HK$'000*
Revenue		
Management fees	**331,449**	436,587
Performance fees	**69,358**	2,075,621
Front-end fees	**2,605**	1,616
Back-end fees	**18,448**	26,933
Total revenue	**421,860**	2,540,757
Other income		
Interest income on financial assets at fair value through profit or loss	**—**	1,523
Interest income on cash and cash equivalents	**19,602**	26,786
Dividend income on financial assets at fair value through profit or loss	**629**	1,097
Dividend income on available-for-sale financial assets	**17,123**	38,920
Others	**169**	2,935
Total other income	**37,523**	71,261
Total income	**459,383**	2,612,018

3 Compensation and benefit expenses

	2008	2007
	HK$'000	*HK$'000*
Bonus	**7,982**	549,815
Salaries, wages and other benefits	**62,376**	63,607
Share-based compensation	**127,190**	574
Termination benefits	**513**	—
Pension costs — mandatory provident fund scheme	**1,054**	837
Total compensation and benefit expenses	**199,115**	614,833

4 Other expenses

	2008	2007
	HK$'000	*HK$'000*
Legal and professional fees	**5,233**	4,440
Research expenses	**5,105**	3,316
Depreciation and amortisation	**4,844**	4,063
Travelling expenses	**3,991**	3,012
Office expenses	**3,552**	2,392
Auditor's remuneration	**2,942**	1,023
Insurance expenses	**2,776**	1,994
Marketing expenses	**2,375**	3,649
Recruitment and training expenses	**1,688**	1,071
Registration and licensing fees	**1,478**	599
IPO expenses	**968**	56,814
Entertainment expenses	**616**	446
Others	**3,097**	2,560
Total other expenses	**38,665**	85,379

5 Other (losses)/gains — net

	Note	**2008**	2007
		HK$'000	*HK$'000*
Losses on disposal of subsidiaries		**(190)**	—
Losses on disposal of joint ventures		**—**	(1,080)
Gains on available-for-sale financial assets		**1,154**	28,655
Losses on available-for-sale financial assets		**—**	(441)
Gains on financial assets at fair value through profit or loss		**4,853**	18,282
Losses on financial assets at fair value through profit or loss	*(a)*	**(123,180)**	(25,323)
Net foreign exchange gains/(losses)		**4,602**	(5)
Cash gift	*(b)*	**54,600**	—
Total other (losses)/gains — net		**(58,161)**	20,088

(a) Previously the Group classified the investments in own investment funds as available-for-sale financial assets. In 2008, the Group has applied the scope exclusion within HKAS 28 "Investments in Associates" for mutual funds, unit trusts and similar entities and such investments are now classified as financial assets at fair value through profit or loss. The reclassification has been applied prospectively. Included in losses on financial assets at fair value through profit or loss is HK$116,073,000 which represents the change in fair value of investments in own investment funds during the year.

(b) The Board of Directors was informed by an existing shareholder and two previous shareholders of the Company that they would like to make a cash gift of US$7,000,000 to the management and employees of the Group as a token of appreciation for their efforts and as a reward of their performance over the years. After due considerations, management proposed and the gift was made to the Group to demonstrate management's support and commitment to the Group and so that the benefit of the gift would be shared by all the shareholders and employees of the Group.

6 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 taxes has been made in the consolidated financial statements.

Hong Kong profits tax has been provided on the estimated assessable profit for the year ended 31 December 2008 at the rate of 16.5% (2007: 17.5%).

	2008	2007
	HK$'000	*HK$'000*
Current tax		
— Hong Kong profits tax	**28,212**	259,973
— Overseas tax	**51**	—
Adjustments in respect of prior years	**(1,970)**	(24,355)
Total current tax	**26,293**	235,618
Deferred tax		
Origination and reversal of temporary differences	**(367)**	—
Impact of change in Hong Kong tax rate	**(18)**	—
Total deferred tax	**(385)**	—
Total tax expense	**25,908**	235,618

7 Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company of HK$66,598,000 (2007: HK$1,419,528,000) by the weighted average number of ordinary shares in issue of 1,600,000,000 shares (2007: 1,600,000,000 shares) adjusted for as if the shares issued by the Company in the share swap between the Company and Value Partners Limited as disclosed in Note 1 above have been outstanding throughout the year.

Diluted earnings per share is calculated by dividing the profit attributable to equity holders of the Company of HK$66,598,000 (2007: HK$1,419,528,000) by the weighted average number of ordinary shares outstanding of 1,600,000,000 shares (2007: 1,600,000,000 shares) to assume conversion of all dilutive potential ordinary shares.

8 Dividends

	Note	2008 HK$'000	2007 HK$'000
Dividends by the Company			
Interim dividend of HK5.5 cents (2007: Nil) per ordinary share		**88,000**	—
Final dividend of HK$Nil (2007: HK26.6 cents) per ordinary share	*(a)*	**—**	425,600
Special dividend of HK$Nil (2007: HK8.9 cents) per ordinary share		**—**	142,400
		88,000	568,000
Dividends by Value Partners Limited			
Special dividend to the then shareholders of HK$Nil (2007: HK$43.129) per ordinary share	*(b)*	**—**	660,000
		—	660,000
Total dividends		**88,000**	1,228,000

(a) The Directors do not recommend the payment of a final dividend for the year ended 31 December 2008.

(b) A special dividend of HK$660,000,000 was declared by Value Partners Limited in 2007 which was conditional upon (i) the listing of shares of the Company on the Main Board of the Hong Kong Stock Exchange, (ii) the retained earnings of the Group at 31 December 2007 and (iii) the retained earnings of Value Partners Limited at 31 August 2007.

9 Investments — the Group

Investments include the following:

	Financial assets at fair value through profit or loss		Available-for-sale financial assets		Total	
	2008	2007	**2008**	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Listed securities (by place of listing)						
Equity securities — Hong Kong	**—**	—	**—**	1,882	**—**	1,882
Investment funds — Hong Kong	**100**	219	**—**	—	**100**	219
Investment funds — Singapore	**3,383**	8,857	**—**	—	**3,383**	8,857
Market value of listed securities	**3,483**	9,076	**—**	1,882	**3,483**	10,958
Unlisted securities (by place of incorporation/establishment)						
Equity securities — Singapore	**—**	—	**4,703**	10,404	**4,703**	10,404
Investment funds — Cayman Islands	**115,486**	—	**9,417**	171,708	**124,903**	171,708
Investment funds — Luxembourg	**3,869**	—	**—**	7,483	**3,869**	7,483
Investment funds — United States of America	**17,395**	—	**—**	36,587	**17,395**	36,587
	136,750	—	**14,120**	226,182	**150,870**	226,182
Total investments	**140,233**	9,076	**14,120**	228,064	**154,353**	237,140

There was no impairment provision on available-for-sale financial assets at 31 December 2008 (2007: Nil).

10 Fees receivable — the Group

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:

	2008	2007
	HK$'000	*HK$'000*
Fees receivable that were past due but not impaired		
0 — 30 days	**27,601**	1,558,524
31 — 60 days	**955**	4,887
61 — 90 days	**656**	63,982
Over 90 days	**64**	13,798
	29,276	1,641,191
Fees receivable that were within credit period	**4,083**	55,412
Total fees receivable	**33,359**	1,696,603

11 Cash and cash equivalents

The Group	**2008** *HK$'000*	2007 *HK$'000*
Cash at bank and in hand	**175,331**	390,861
Short-term bank deposits	**385,835**	338,505
Deposits with brokers	**999**	15,722
Total cash and cash equivalents	**562,165**	745,088

12 Distribution fees payable — the Group

The ageing analysis of distribution fees payable is as follows:

	2008 *HK$'000*	2007 *HK$'000*
0 — 30 days	**5,440**	134,714
Over 90 days	**4,266**	16,953
Total distribution fees payable	**9,706**	151,667

CHAIRMAN'S STATEMENT

We have been put through a severe test by the global financial crisis. So far, we have passed, and even if the turmoil continues, we think we would still pass, in the sense that we should still be able to keep intact Value Partners as a strong and reliable asset-management institution. And, as discussed below, Value Partners can remain profitable, although there is no guarantee here.

That said, it is rough and difficult. Value Partners Classic Fund, our flagship fund, was down 47.9% in 2008[ϕ], and even the Group's top performer, Value Partners Hedge Fund Limited[Δ], lost 21.8%. Assets under management ("AUM") declined to US$3.2 billion from US$7.3 billion a year earlier, caused more by market losses than by redemptions (see the accompanying Report of the Chief Executive Officer ("CEO") and Financial Review for operational details).

Although Value Partners Group Ltd. didn't result in any net loss as a firm, at HK$66.6 million (HK4.2 cents per share), the 2008 net profit after tax was a huge retreat from the HK$1.4 billion we reported the previous year. Regarding dividend, we think we have paid enough for 2008 through the interim dividend of HK5.5 cents per share six months ago, and we do not propose to pay a final dividend for the year.

The point remains, however, this is a resilient business model. As a firm, Value Partners has never resulted in any net loss since its inception in 1993, except for a small loss of HK$261,000 in 1999 in the aftermath of the Asian financial crisis. We keep our fixed costs very low (but pay generous bonuses when appropriate), we are cash-rich and we have no debt — and we have a core of long-term committed staff who think and act like owners, rather than employees.

Now, surveying the landscape, we find these points most relevant to us as a group:

- Performance. Our most critical mission is to generate an attractive return for our clients. Using Value Partners Classic Fund as an example, 2008 was the first time in 10 years that we lost clients' money. In terms of annual performance, the Classic Fund lost money in only four years out of the 16 years that it has been in business. For comparison, the Hang Seng Index recorded a loss in seven out of the 16 years, while the MSCI China Index lost in eight out of the 16 years. We don't believe a serious investor would evaluate a fund manager based on a single year's performance, so our long track record and consistent investment discipline should continue to justify confidence. Clearly, however, we must continue to place our highest priority on the performance of our funds.

ϕ *Performance of Value Partners Classic Fund (A Units) over past five years: 2008, -47.9%; 2007, +41.1%; 2006, +41.8%; 2005, +15.9%; 2004, +5.8%.*

Δ *The fund is not authorized by the Securities and Futures Commission of Hong Kong to be marketed to the public generally in Hong Kong.*

- Asset size. Like most fund managers, we worry that the global crisis could cause more clients to redeem in order to put their money into cash. Already, the crisis has cost us the last two or three years of business growth: we are today back to the AUM level we were managing during 2005-2006 (as of mid-2006, group AUM was US$3.4 billion). As can be seen from the Report of the CEO, Value Partners has various initiatives to re-build AUM, but for the time being, it is not easy. My own guess is that sooner or later, the cash will come back into the market, perhaps driven by renewed fears of inflation, and our business should then benefit accordingly.

- Competitive advantages. This is where the crisis helps us. We have much feedback that investors generally are reluctant to entrust money to small fund management firms, particularly those lacking a full infrastructure. Value Partners' advantage is that we have transformed ourselves into a full-fledged institution, complete with a listing on the Hong Kong Stock Exchange. Clients coming to us can be assured by our solid infrastructure, covering research and investment; central dealing; fund-raising and managing client relationships; compliance and risk management; business development and corporate administration; and back-office support operations.

Another advantage is that we have always done our own investment research, making us increasingly different from other fund management companies, which have been saving on research expense through headcount reductions, in response to the industry's difficulties. These companies become reliant on research reports provided by outside brokers. For Value Partners, this cannot do, as we believe a high value-added fund manager must have original ideas backed by actual research, rather than borrow from outsiders.

Finally, some observations about China and the world. This is one crisis where we don't see a swift, V-shaped recovery for the global economy. It may take years for the American and European consumers to recover, or for the global economy to develop new engines of growth.

One major economy that is not in a crisis — though it also has its own problems — is China. It is worth reminding that China-related stocks started falling sharply from late 2007, as the country's business cycle entered a downturn, even before the global turmoil began. We hold the view that the first to enter crisis could well be the first to emerge. For now the headlines about China's economy remain negative, but this could change from the second half of the year as government stimulus measures take effect.

To us, the China story remains intact, and we fully expect China to become a new engine for global growth, as the country emerges to become the world's biggest economy in the next few decades.

We've been hurt by the crisis, but our fundamental strengths are intact.

CHEAH Cheng Hye
Chairman and Chief Investment Officer

Hong Kong, 12 March 2009

REPORT OF THE CHIEF EXECUTIVE OFFICER

The credit crisis that erupted from the US subprime lending market reverberated throughout the world in 2008, causing havoc to the global financial system. While high profile US bank collapses and falling capital markets dominated news headlines, the wider ramifications of the severe contraction in credit began to be felt globally through weaker consumption, job losses and a slowdown in business activity as the year progressed. Given the depth, breadth and ferocity, many observers now believe this to be the biggest financial crisis since The Great Depression in 1929.

Amid this turmoil, the asset management industry experienced massive upheaval. Volatile market conditions and a severe decline in investors' risk appetite have caused unprecedented hardship in the industry during the year. In Hong Kong, the malaise that has enveloped the industry is amply demonstrated by the industry's 73.7%* decline in assets under management in equity funds attributable to Hong Kong investors for the year under review.

At Value Partners, the management has endeavored to respond appropriately to the crisis by introducing fresh measures to complement its already prudent management approach. The Group has always been bound by a conservative philosophy to managing expenses. Due to the cyclical nature of the business, the Group has always emphasized the importance of keeping the fixed expenses low. This approach now stands the Group in good stead to weather any market downturn, with monthly expenses remaining low and fixed-cost coverage currently at 3 times, which measures how many times the Group's fixed and recurrent expenses are covered by its fund management fees.

Importantly, the Group's balance sheet remains sound, with no leverage on the books, plenty of cash held in deposits, and zero exposure to derivatives as at year end date.

In terms of new measures initiated as a response to the dramatic downturn in financial markets, one of the management's main actions has been to review its business operations and cull the workforce. There were a total of 12 redundancies involving junior and mid-level positions across front and back office operations. These adjustments have bought the Group's head count back down to 86 people, roughly the same as when it was listed in November 2007. It should be noted here that the decision to lay off staff was motivated more by the management's commitment to ensuring the Group's resources are efficiently aligned with the market environment, than cost cutting per se.

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* *Data sourced from Hong Kong Investment Fund Association, dated 31 December 2008.*

Financial overview

Despite the adverse market conditions and negative funds returns, the Group's operations remained profitable in 2008. Net profit came to HK$66.6 million, versus HK$1,419.5 million in the prior year. Total revenue came to HK$421.9 million versus HK$2,540.8 million in the prior year. The Group's total AUM fell 56.1% to US$3,208 million in 2008 from US$7,303 million in 2007, but the decline was mostly the result of the weakness in global stock markets not the net outflow of client funds, which was limited by comparison.

Business overview

As market conditions changed over the course of the year, the Group's focus has shifted. In the first half of the year, the management oversaw the successful expansion and diversification of the Group's product ranges. These included the Value Partners Taiwan Fund, an absolute return long biased fund launched in March, a property long-short hedge fund[Δ] focusing on Greater China property stocks launched in May and a property focused fund[Δ] in Australia with our business partner.

The Group also won a mandate to manage investments for the endowment fund of a renowned university in the United States in February, collaborated with Ping An Trust to launch four trusts[Δ] in mainland China and teamed up with a leading insurance company in Hong Kong to launch a new fund focusing on Asia Pacific high dividend stocks.

In the second half of the year, as the credit crisis gathered momentum, the Group's focus switched to client retention. Various overseas roadshows and other marketing trips were organized and an increased number of large-scale meetings were held for distribution partners aimed at easing concerns and communicating how the Group's investment management team viewed and approached the volatile market conditions.

The management believes these initiatives have been largely successful given the continued loyalty of our clients throughout the market volatility. Indeed the decline in the Group's assets under management during the year was due more to the declining stockmarkets than outflow of clients, which was relatively small. During the year under review, the Group's AUM dropped 56.1%, with the net redemption ratio at 10.9% of AUM. The Hang Seng Index recorded a negative return of 46.4% during the same period.

In line with our product diversification strategy, the Group also stepped up its efforts to strengthen its retail distribution capabilities by partnering with the HSBC Group ("HSBC"). Since August 2008, some of the Group's Securities and Futures Commission ("SFC") authorized products[^] have been available throughout Hong Kong via HSBC's extensive branch network.

Δ *These funds are not authorized by the SFC to be marketed to the public generally in Hong Kong.*

^ *SFC authorization does not imply official recommendation.*

Among the parties I would like to thank for their support and contributions to Value Partners throughout the year are the Group's strategic investor Ping An Insurance (Group) Company of China, Ltd ("Ping An"). In addition to the four trusts[Δ] mentioned earlier, the Group has been working with Ping An to explore opportunities to launch new products, including but not limited to Qualified Domestic Institutional Investor (QDII) products. We have also expanded our business collaboration in the area of investment advisory.

Here, it would be pertinent to add that Value Partners was ranked the second largest hedge fund manager in Asia in 2008, according to Alpha Magazine July/August 2008 edition (an Institutional Investors publication).

Management and people

I am pleased to announce that both Mr. SO Chun Ki Louis and Ms. HUNG Yeuk Yan Renee were promoted to Deputy Chief Investment Officers of the Group with effect from 12 March 2009. Mr. SO and Ms. HUNG joined the Group as analysts in May 1999 and April 1998, respectively. They were promoted to fund managers and senior fund managers during their career at Value Partners. Upon listing of the Company on 22 November 2007, they were appointed as Executive Directors of the Company. On behalf of Value Partners, I would like to take this opportunity to congratulate Mr. SO and Ms. HUNG on their promotions.

I would like to express my gratitude to Mr. Mark DICKENS, J.P., who left the Group in December 2008 to join the Stock Exchange of Hong Kong Limited as Head of the Listing Division. Mr. DICKENS joined the Group as Chief Risk Officer in July 2007 and was responsible for helping the Group institutionalize its risk management ahead of becoming the first asset management company to be listed in Hong Kong. He served the Group with distinction, successfully strengthening the risk management, compliance, legal and internal audit teams and establishing very high standards of work that will underpin the next stage of the Group's growth.

Our Chief Compliance Officer, Ms. WOO Lai Nga, who worked closely with Mr. DICKENS, has taken over his responsibilities and is now the Chairman of the Group's Risk Management Committee. Ms. WOO joined the Group in October 2002 and has extensive work experience in the compliance field and knowledge of regulatory requirements.

Mr. CHOI Nga Chung resigned from his position as an Executive Director on the Board of Directors and Senior Fund Manager on 14 November 2008. He was re-designated as a Non-executive Director on 14 November 2008 and resigned from this position on 22 January 2009. Mr. CHOI gave the Group more than ten years of excellent service. On behalf of Value Partners, I would like to take this opportunity to thank Mr. CHOI for his contributions to the Group.

Δ *These funds are not authorized by the SFC to be marketed to the public generally in Hong Kong.*

Looking forward

Looking ahead, the management believes the Group can remain strong despite the challenging environment. The management's confidence is founded on the Group's strong financial position, committed and experienced investment team which has successfully weathered previous market crises, fully fledged marketing and client services functions, and substantial investment made over the past years to establish world-class risk management and compliance infrastructure and internal controls.

In addition, the management's optimism is founded on the Group's strong and diversified product range. In recent years, the group has striven successfully to diversify its products and services, building up the human capital and operational infrastructure to support what the management has termed the Bar-bell product strategy. On the one end of the Bar-bell is the Group's original suite of premium performance-oriented fund products, which take longer to build up capacity and carry a premium pricing structure. On the other end is the Group's high capacity funds, which are designed to handle large volumes and can be very competitive in pricing. By managing both types of funds, the Group is well positioned not only to weather the downturn but also to benefit from the eventual recovery of the market through multiple avenues.

The management is also keen to highlight the Group's strength in managing investments focused on mainland China, which is likely to be one of the key investment themes for global investors once the current volatility subsides. Indeed, despite the weak global economic conditions, economic growth in mainland China are expected to remain solid over the next decades, creating enormous investment opportunities. Additionally, the large number of funds lying dormant in bank deposits and high savings rate in China suggests there is a potentially huge supply of capital waiting on the sidelines. Overall, we believe the mainland China economy will remain buoyant in the long run, with the continued growth in affluence among Chinese people pointing to strong future consumption, and Chinese companies becoming increasingly efficient and competitive on the world stage.

Moreover, in the aftermath of the crisis, the management anticipates the Group's value investing methodology will grow in popularity, with investors likely to favor a prudent, back-to-basics style of investment management following the upheaval.

All told, the management expects the Group to come out of the financial crisis in good shape and well positioned to take advantage of business opportunities in what will undoubtedly be a more benign competitive landscape following the recent industry consolidation. Indeed, this is by no means the first market downturn the Group has experienced. Since 1993, Value Partners has operated through three boom bust cycles and has emerged stronger every time.

FINANCIAL REVIEW

Introduction

Value Partners Group is an independent asset management company, with a value-oriented investment approach and a focus on the Greater China and Asia-Pacific capital markets. As at 31 December 2008, the Group had a total AUM of US$3.2 billion.

The Group's long-term business strategy is to develop two complementary categories of investment products — a premium suite and a high-capacity suite. Under this Bar-bell Strategy, the premium suite of products would derive more of its income from performance fees. This category can be expected to do better in bull market conditions, as performance fees will rise substantially along with asset values. Products in this category may take longer to scale up. Our absolute return long-biased funds, long-short hedge funds and private equity funds would belong to this category of products.

On the other side of the Bar-bell, the high-capacity suite of products derive income primarily from management fees, which in turn is driven by the size of their AUM. A combination of fund performance and active marketing would be used to attract inflows of funds. These products would focus on mainstream stocks, which give them greater flexibility to scale up to take advantage of growth in demand. This means capacity is less of a concern with this category of funds. Products in this category would include quantitative products under the Sensible Asset Management ("SAM") brand.

During the period under review, we successfully expanded both product ranges by a total of six new products. Please refer to the Report of the Chief Executive Officer for more information about these new products and the Group's overall business strategy.

Assets Under Management

AUM and return

The Group's AUM stood at US$3,208 million as of 31 December 2008, compared with US$7,303 million a year earlier, representing a 56.1% decline. The decline was largely the result of the weakness in global stock markets. Average AUM decreased from US$6,093 million to US$5,117 million, representing a 16.0% decline. Gross subscriptions decreased from US$2,542 million to US$1,408 million. While there was a net outflow of client funds, the net redemptions recorded for the period under review were limited to only US$797 million, representing 10.9% of the AUM as at the beginning of the year.

In terms of fund performance, the asset-weighted average return of funds under management was negative 46.9%, compared with negative 46.4% for the Hang Seng Index and negative 50.8% for the MSCI China Index during the same period.

AUM by category

The data below provides analysis of the Group's AUM by different classification systems, including brand, strategy and fund type in 2008.

- By brand, the Group's Own Branded Funds accounted for 54% of total AUM; White Label Funds for 44% and Co-branded Funds for 2%.

- By strategy, Absolute Return Long-biased Funds accounted for 92% of total AUM; Long-short Hedge Funds for 3%; Private Equity Funds, 4%; and Quantitative Funds, 1%.

- By fund type, funds authorized for sale in Hong Kong constituted 63% of total AUM, with Non-authorized Funds accounting for 17%; Managed Accounts, 16%; and Private Equity Funds, 4%.

Client base

Institutional clients, the Group's primary group of fund investors, made up 42% of total AUM as at 31 December 2008 (down from 50% as at 31 December 2007), with pension funds accounting for 22% (up from 12%), endowments and foundations, 11% (up from 9%) and funds of funds, 5% (down from 8%). High-net-worth individuals accounted for 5% (down from 6%) and retail investors accounted for 13% (no change). Family offices and trusts accounted for 2% (no change).

By geographical region, Hong Kong clients accounted for 56% of the Group's AUM (up from 48% as at 31 December 2007), followed by United States clients with 19% (down from 20%), European clients, 12% (down from 19%) and Australian clients, 7% (up from 5%). Japanese clients accounted for 1% (down from 2%). The rest of the world accounted for 5% of the Group's AUM (down from 6%).

Financial Results

Revenue and fee margins

Gross management fees fell 24.1% to HK$331.4 million from HK$436.6 million in 2007, while net management fees fell to HK$272.7 million from HK$353.2 million over the same period. These declines were in line with the 16.0% decrease in the Group's average AUM to US$5,117 million in 2008 from US$6,093 million in 2007. The net management fee margin came to 68 basis points, compared with 75 basis points recorded in the previous year. This slight margin contraction was due to an increase in the AUM of funds that carry a lower margin.

Gross performance fees came to HK$69.4 million, compared with HK$2,075.6 million in the previous year. The decline was due to the adverse market conditions, under which most of the Group's funds were unable to generate performance fees.

Other income, comprising mainly dividend income and interest income, came to HK$37.5 million, declining from HK$71.3 million in the previous year. Dividend income stood at HK$17.8 million (compared with HK$40.0 million in 2007) and interest income came to HK$19.6 million (compared with HK$28.3 million in 2007). The decrease in dividend income was due to the decrease in dividend from investee companies, while the drop in interest income was due to lower deposits interest rates.

Other gains and losses

As mentioned in the Group's 2008 interim report, the Group received a cash gift of US$7 million from certain existing and previous shareholders in 2008. This gift was recognized as an asset of the Group and recorded as an item of other gains in the second half of the year.

The Group has changed its accounting treatment of seed capital to allow changes in the fair value of seed capital to be reflected in the profit and loss accounts with effect from 2008. In so doing, an unrealized loss of HK$116.1 million, corresponding to an equivalent decrease in the fair value of seed capital in 2008, was recorded in the profit and loss accounts for the year under review. Previously, the Group classified the seed capital as available-for-sale financial assets and any change in fair value was accounted for in reserves. The cash flow of the Group was not affected by the unrealized loss relating to the decrease in the fair value of seed capital.

Cost management

The Group aims to keep its fixed and recurring expenses, such as fixed salaries, rent and other administrative and office expenses, balanced against its fund management fee income, which is considered a relatively stable source of income. Internally, the Group measures this objective through the fixed cost coverage ratio, an indicator which shows how many times fixed and recurring expenses are covered by fund management fee income.

In 2008, the management successfully maintained the Group's fixed cost coverage at 3 times through prudent, closely monitored cost management. Indeed, fixed operating expenses increased only slightly from HK$102.6 million in 2007 to HK$111.4 million in 2008. The management is confident the Group can continue to balance income and expenditure effectively, irrespective of market conditions.

Aside from operating expenses, the Group recorded an expense of HK$127.2 million relating to stock options granted to employees. This item of expense did not impact cash flow and is recognized here to comply with Hong Kong Financial Reporting Standards ("HKFRS").

In 2008, management bonuses were reduced to HK$8.0 million from HK$549.8 million in the preceding year. This is consistent with the Group's compensation policy, which distributes approximately 25% of the Group's profit before tax, subject to certain adjustments, to employees in the form of discretionary bonuses in order to promote staff loyalty and commitment, while aligning the interests of employees with those of shareholders.

Dividend

The Group's dividend policy prescribes the distribution of no less than 30% of the Group's total distributable profits to shareholders. In August 2008, the Group has distributed an interim dividend of HK5.5 cents per share to shareholders. After considering the payout of interim dividend and to maintain a higher level of cash, the Board of Directors did not recommend a final dividend for 2008.

Events after the balance sheet date

The Group was informed by Development Partners Limited, which was previously a joint venture between the Group and other investors, about the Group's entitlement to a distribution of carry interest by the venture. While the Group disposed of its equity interest in Development Partners Limited in September 2007, it maintained an economic interest in the carry interest of a certain fund managed by the venture under its sales and purchase agreement. The Group's share of this carry interest, which amounts to US$6.8 million, was received in February 2009. This carry interest will be recognized as an item of income and an asset of the Group in the first half of 2009.

Liquidity and financial resources

Fee income is the Group's main source of income. Other sources include interest income from bank deposits and dividend income from investments held. During the year, the Group's balance sheet and cash flow remained strong. As at 31 December 2008, the Group had a net cash balance of HK$562.2 million. For the year ended 31 December 2008, net cash inflows from operating activities amounted to HK$1,162.8 million.

The Group had no bank borrowings and did not pledge any assets as collateral for overdrafts or other loan facilities during the period under review. 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 23 times.

Capital structure

As at 31 December 2008, the Group's shareholders' equity and total number of shares in issue for the Company stood at HK$742.1 million and 1.6 billion, respectively.

OTHER INFORMATION

Human Resources

As at 31 December 2008, the Group employed 83 employees. Remuneration packages that take into account of business performance, market practices and competitive market conditions are offered to employees in compensation for their contributions. In line with our emphasis on recognition for performance and human capital retention, we reward our employees with year-end discretionary bonuses which are directly linked to our level of profits for that financial year.

Dividends

An interim dividend of HK5.5 cents was paid during the year. The Directors do not recommend the payment of a final dividend for the year ended 31 December 2008.

Annual General Meeting

It is proposed that the Annual General Meeting of the Company will be held on Monday, 27 April 2009. Notice of the Annual General Meeting will be published and issued to shareholders in due course.

Closure of Registers of Members

The Registers of Members of the Company will be closed from Thursday, 23 April 2009 to Monday, 27 April 2009, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for attending the Annual General Meeting for the year 2009, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not later than 4:00 p.m. on Wednesday, 22 April 2009.

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 year ended 31 December 2008.

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 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 consolidated results of the Group for the year ended 31 December 2008.

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, as set out in Appendix 14 of the Listing Rules for the year ended 31 December 2008.

Model Code for Securities Transactions by Directors

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as contained in Appendix 10 to the Listing Rules.

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 year ended 31 December 2008.

Publication of Final Results and Annual Report on the Stock Exchange

The final results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.valuepartnersgroup.com.hk). The annual 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
Ngan Wai Wah
CEO and Executive Director

Hong Kong, 12 March 2009

As at the date of this Announcement, our Directors are Mr. Cheah Cheng Hye, Ms. Chau Yee Man, Mr. Ho Man Kei, Ms. Hung Yeuk Yan Renee, Mr. Law Ka Kin, Mr. Ngan Wai Wah and Mr. So Chun Ki Louis as Executive Directors, and Dr. Chen Shih Ta Michael, Mr. Lee Siang Chin and Mr. Nobuo Oyama as Independent Non-executive Directors.