

Annual Report 2008  
二零零八年年報

**Value Partners Group Limited**  
**惠理集團有限公司**

(incorporated in the Cayman Islands with limited liability)  
(於開曼群島註冊之有限責任公司)

Stock Code 股份代號: 806

# Contents

	<i>Pages</i>
Corporate Information	2
Summary of Results, Assets and Liabilities	3
Chairman's Statement	4
Report of the Chief Executive Officer	6
Financial Review	10
Biographies of Directors and Senior Management	15
Report of the Directors	20
Corporate Governance Report	31
Independent Auditor's Report	37
Consolidated Income Statement	39
Consolidated Balance Sheet	40
Balance Sheet	42
Consolidated Statement of Changes in Equity	43
Consolidated Cash Flow Statement	44
Notes to the Consolidated Financial Statements	45
Particulars of Subsidiaries	96

# Corporate Information

## Board of Directors

### Chairman and Chief Investment Officer

Mr. CHEAH Cheng Hye

### Executive Directors

Ms. CHAU Yee Man, CFA & CPA  
(appointed on 29 August 2008)

Mr. HO Man Kei, CFA

Ms. HUNG Yeuk Yan Renee

Mr. LAW Ka Kin

Mr. NGAN Wai Wah, CFA

Mr. SO Chun Ki Louis

### Independent Non-executive Directors

Dr. CHEN Shih Ta Michael

Mr. LEE Siang Chin

Mr. OYAMA Nobuo

## Non-executive Honorary Chairman

Mr. YEH V-Nee

## Company Secretary

Mr. TSE Wai Ming, CFA & FCPA

## Authorised Representatives

Mr. LAW Ka Kin

Mr. NGAN Wai Wah, CFA

## Members of the Audit Committee

Mr. LEE Siang Chin (*Chairman*)

Dr. CHEN Shih Ta Michael

Mr. OYAMA Nobuo

## Members of the Remuneration Committee

Dr. CHEN Shih Ta Michael (*Chairman*)

Mr. CHEAH Cheng Hye

Mr. LEE Siang Chin

Mr. NGAN Wai Wah, CFA

Mr. OYAMA Nobuo

## Members of the Risk Management Committee

Ms. WOO Lai Nga, CFA & CPA (*Chairman*)

Mr. CHEAH Cheng Hye

Mr. LAW Ka Kin

Ms. LEE Vivienne

Mr. NGAN Wai Wah, CFA

Mr. SO Chun Ki Louis

## Members of the Valuation Committee

Mr. NGAN Wai Wah, CFA (*Chairman*)

Mr. LAW Ka Kin

Mr. TSE Wai Ming, CFA & FCPA

## Registered Office

Cricket Square, Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

## Principal Place of Business in Hong Kong

Level 14, Three Pacific Place

1 Queen's Road East

Hong Kong

## Cayman Islands Principal Share Registrar and Transfer Office

Butterfield Fund Services (Cayman) Limited

Butterfield House

68 Fort Street

P.O. Box 705

Grand Cayman KY1-1107

Cayman Islands

## Hong Kong Branch Share Registrar and Transfer Office

Tricor Investor Services Limited

26/F Tesbury Centre

28 Queen's Road East

Hong Kong

## Auditor

PricewaterhouseCoopers

## Legal Advisor

Richards Butler in association with Reed Smith LLP

## Compliance Advisor

J.P. Morgan Securities (Asia Pacific) Limited

## Principal Bankers

The Hongkong and Shanghai Banking Corporation Limited

Standard Chartered Bank (Hong Kong) Limited

## Website

[www.valuepartnersgroup.com.hk](http://www.valuepartnersgroup.com.hk)

## Stock Code

806

## Summary of Results, Assets and Liabilities

Results of the Group for the year ended 31 December					
(In HK\$ million)	2008	2007	2006	2005	2004
Revenue	421.9	2,540.8	1,489.6	485.0	366.6
Operating profit	92.5	1,655.3	1,034.9	284.5	196.3
Net profit	66.6	1,419.5	856.2	237.0	167.5
Earnings per share (HK cent)					
— Basic & Diluted	<u>4.2</u>	<u>88.7</u>	<u>53.5</u>	<u>14.8</u>	<u>10.5</u>

Assets and liabilities of the Group at 31 December					
(In HK\$ million)	2008	2007	2006	2005	2004
Total assets	769.1	2,707.3	1,543.1	686.8	403.6
Less: Total liabilities	<u>27.0</u>	<u>1,493.5</u>	<u>564.9</u>	<u>159.7</u>	<u>88.8</u>
Total net assets	<u>742.1</u>	<u>1,213.8</u>	<u>978.2</u>	<u>527.1</u>	<u>314.8</u>

Note:

The above financial information was based on the principal accounting policies as described in the notes to the consolidated financial statements.

## 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<sup>◊</sup>, and even the Group's top performer, Value Partners Hedge Fund Limited<sup>△</sup>, 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.
- **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.

<sup>◊</sup> 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%.

<sup>△</sup> The fund is not authorized by the Securities and Futures Commission of Hong Kong to be marketed to the public generally in Hong Kong.

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## Chairman's Statement

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*

*Since 1993, Value Partners has operated through three boom bust cycles and has emerged stronger every time.*

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 brought 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.

\* 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<sup>Δ</sup> focusing on Greater China property stocks launched in May and a property focused fund<sup>Δ</sup> 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<sup>Δ</sup> 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<sup>Δ</sup> have been available throughout Hong Kong via HSBC's extensive branch network.

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<sup>Δ</sup> 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).

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

<sup>Δ</sup> *SFC authorization does not imply official recommendation.*



### 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.

### 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.

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## Report of the Chief Executive Officer

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.

**NGAN Wai Wah, CFA**  
*CEO and Executive Director*

# 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.

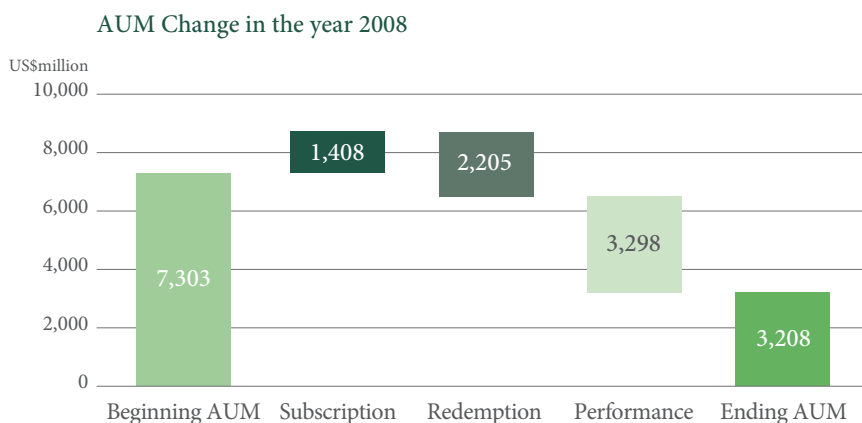
During the period under review, we successfully expanded both product ranges by a total of six new products. Please refer to the Report of the Chief Executive Officer for more information about these new products and the Group's overall business strategy.

## 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.

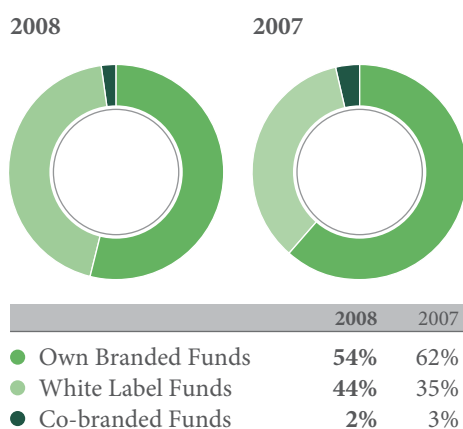


AUM by category

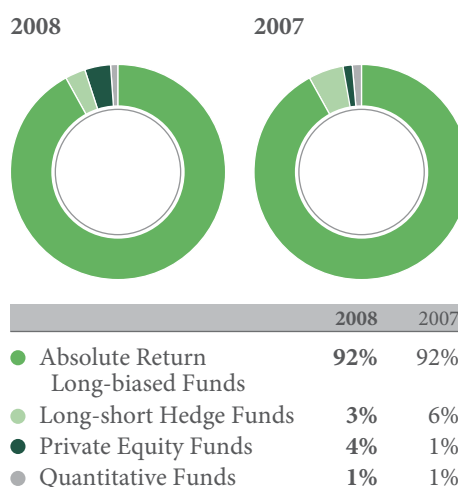
The charts below provides analysis of the Group's AUM by different classification systems, including brand, strategy and fund type in 2008.

- 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%.

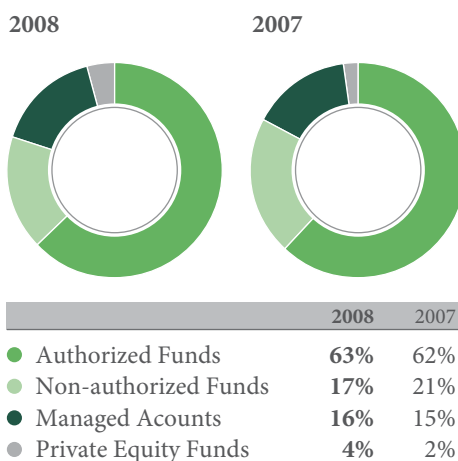
Classification by brand



Classification by strategy



Classification by type of funds

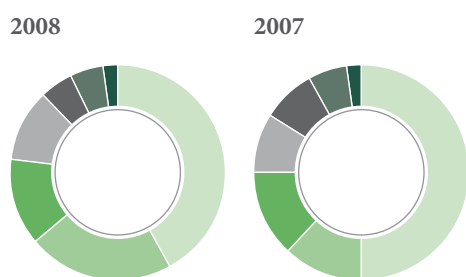


### Client base

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).

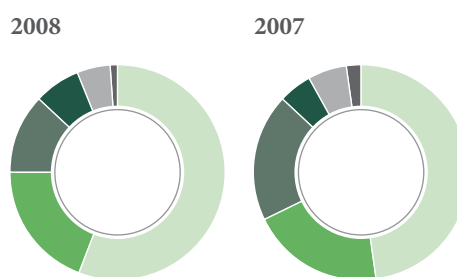
By geographical region, Hong Kong clients accounted for 56% of the Group's AUM (up from 48% as at 31 December 2007), followed by United States clients with 19% (down from 20%), European clients, 12% (down from 19%) and Australian clients, 7% (up from 5%). Japanese clients accounted for 1% (down from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

Client analysis by type



	2008	2007
Institutions	42%	50%
Pension funds	22%	12%
Retails	13%	13%
Endowments and foundations	11%	9%
Funds of Funds	5%	8%
High-net-worth Individuals	5%	6%
Family office and trusts	2%	2%

Client analysis by geographical region



	2008	2007
Hong Kong	56%	48%
United States	19%	20%
Europe	12%	19%
Australia	7%	5%
Others	5%	6%
Japan	1%	2%

### Summary of results

Despite the market volatility and negative fund returns, the Group continued to generate a net profit. The key financial figures for the reporting period are as follows:

- 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)
- Interim dividend was HK5.5 cents per share (2007: nil) and final dividend was nil (2007: HK26.6 cents per share plus a special dividend of HK8.9 cents per share)

### 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").

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## Financial Review

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 performance fee 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 performance fee of a certain fund managed by the venture under its sales and purchase agreement. The Group's share of this performance fee, which amounts to US\$6.8 million, was received in February 2009. This performance fee 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.

**TSE Wai Ming**, CFA & FCPA  
*Chief Financial Officer*  
*Company Secretary*

# Biographies of Directors and Senior Management

## Chairman

### CHEAH Cheng Hye

*Chairman and Chief Investment Officer*

Mr. CHEAH Cheng Hye, aged 55, is the Co-Founder of Value Partners Limited with business partner Mr. YEH V-Nee in February 1993 and has served as the Group's Chief Investment Officer (CIO) from the start. During the 1990s, he also served as Managing Director, in charge of the Group's business and corporate activities.

As one of the pioneers of value investing in Asia, Mr. CHEAH was named as Capital Markets Person of the year by *FinanceAsia* in 2007 and was voted the "Most Astute Investor" in the *Asset Benchmark Survey, October 2003*. Prior to founding Value Partners, Mr. CHEAH worked at Morgan Grenfell Group in Hong Kong, where he founded the firm's Hong Kong equities research department in 1989 and acted as its head, and also carried out proprietary trading at Morgan Grenfell. Prior to that, he was a financial journalist with the *Asian Wall Street Journal* and *Far Eastern Economic Review*, where he covered business and finance across the East and Southeast Asia markets.

Mr. CHEAH is a member of the Company's Remuneration and Risk Management Committees. He is also a director of Value Partners Limited and Value Partners Hong Kong Limited, subsidiaries of the Company.

Mr. CHEAH is the sole director of Cheah Capital Management Limited, a substantial shareholder of the Company.

## Executive Directors

### CHAU Yee Man, CFA & CPA

*Senior Fund Manager and Executive Director*

Ms. CHAU Yee Man, aged 41, holds a leadership role in the Group's investment process, including a high degree of responsibility for portfolio management. She joined the Group in July 2005 as a Senior Fund Manager. Prior to joining the Group, she worked at Credit Agricole Asset Management ("Credit Agricole"), serving as a Senior Investment Manager, responsible for the Hong Kong and Greater China portfolios. Prior to that, Ms. CHAU worked for Sofaer Global Research Ltd and Deloitte Touche Tohmatsu. Ms. CHAU graduated from Macquarie University with a Master's degree in Applied Finance in November 2002. She became a member of the Hong Kong Institute of Certified Public Accountants in February 1995 and a CFA charterholder in September 1997.

### HO Man Kei, CFA

*Senior Fund Manager and Executive Director*

Mr. HO Man Kei, aged 42, holds a leadership role in the Group's investment process, including a high degree of responsibility for portfolio management. He joined the Group in November 1995. He was an executive with Dao Heng Securities Limited from 1992 and started his career with Ernst & Young. Mr. HO is a graduate of the University of Hong Kong, where he received a Bachelor's degree in Social Science in December 1989 majoring in Management Studies. He became a CFA charterholder in October 1996 and a member of the Association of Chartered Certified Accountants in April 2001.

Mr. HO is also a director of the following Group companies, namely, Value Partners (Cayman GP) Limited, Value Partners (Cayman GP) II Ltd, Value Partners Hong Kong Limited, Value Partners Limited and Value Partners Private Equity Limited.



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## Biographies of Directors and Senior Management

### HUNG Yeuk Yan Renee

*Deputy Chief Investment Officer and Executive Director*

Ms. HUNG Yeuk Yan Renee, aged 34, is the Deputy Chief Investment Officer of Value Partners Group. She is responsible for the overall management of the investment management team and holds a leadership role in the Group's investment process, including a high degree of responsibility for portfolio management. Ms. HUNG joined the Group in April 1998 as an analyst and was promoted to Fund Manager and Senior Fund Manager in 2004 and 2005, respectively. She was further promoted to Deputy Chief Investment Officer in March 2009. She graduated from the University of California in Los Angeles in December 1997 with a degree in Applied Mathematics.

### LAW Ka Kin

*Deputy CEO and Executive Director*

Mr. LAW Ka Kin, aged 48, is the Deputy CEO of Value Partners Group. He joined the Group in December 2004 and is responsible for overseeing the operations of the Group. Prior to joining the Group, Mr. LAW worked at Celestial Asia Securities Holdings Limited, where he served as Chief Operating Officer from 1998 and as Executive Director from 2000. Prior to that, he worked as the head of research and a research analyst with several multinational companies for more than 10 years. Mr. LAW graduated from the City of London Polytechnic, UK with a Bachelor's degree majoring in Economics in July 1984.

Mr. LAW is a member of the Company's Valuation and Risk Management Committees and Authorised Representative. He is also the Vice Chairman and a director of Sensible Asset Management Limited and a director of Sensible Asset Management Hong Kong Limited, subsidiaries of the Company.

### NGAN Wai Wah, CFA

*CEO and Executive Director*

Mr. NGAN Wai Wah, aged 35, joined Value Partners Group in March 2004 as CEO, and is responsible for its business management. Prior to joining the Group, he worked for Manulife Asset Management (Hong Kong) from 1997, serving as Director of Sales and Distribution and overseeing both the institutional and the retail businesses. Before joining Manulife, Mr. NGAN was associated with Altamira Investment Services Inc. (Canada). Mr. NGAN is a member of the Public Shareholders Group of the Securities and Futures Commission of Hong Kong. He received a Bachelor's degree in Commerce majoring in Finance from the University of British Columbia in May 1996 and became a CFA charterholder in September 2004.

Mr. NGAN is the Chairman of the Company's Valuation Committee, a member of the Remuneration and Risk Management Committees and Authorised Representative. He is also the Chairman of Sensible Asset Management Limited, and a director of Hongkong Fund Management Limited, Hongkong Investment Management Limited, Middle Star Capital Limited, Sensible Asset Management Limited, Sensible Asset Management Hong Kong Limited, Sunny Country Enterprises Limited, Value Funds Limited, Value Partners (Cayman GP) Limited (alternate director), Value Partners (Cayman GP) II Ltd (alternate director), Value Partners Consulting Limited, Value Partners Hong Kong Limited and Value Partners Limited, subsidiaries of the Company. Mr. NGAN was the Chairman of Development Partners Limited, a joint venture between the Company and FMO, the development bank of the Netherlands, from April 2005 to October 2007.

### SO Chun Ki Louis

*Deputy Chief Investment Officer and Executive Director*

Mr. SO Chun Ki Louis, aged 33, is the Deputy Chief Investment Officer of Value Partners Group. He is responsible for the overall management of the investment management team and holds a leadership role in the Group's investment process, including a high degree of responsibility for portfolio management. Mr. SO joined Value Partners Group in May 1999 as an analyst and was promoted to Fund Manager and Senior Fund Manager in 2004 and 2005, respectively. He was further promoted to Deputy Chief Investment Officer in March 2009. He graduated from the University of Auckland with a degree in Commerce in April 1997 and from the University of New South Wales with a Master's degree in Commerce in October 1998.

Mr. SO is a member of the Company's Risk Management Committee. He also serves as Chairman of the board of Value Partners China Greenchip Fund Limited, and is a director of Sensible Asset Management Limited, Sensible Asset Management Hong Kong Limited and Value Partners Private Equity Limited, subsidiaries of the Company.

### Independent Non-executive Directors

#### CHEN Shih Ta Michael

*Independent Non-executive Director*

Dr. CHEN Shih Ta Michael, aged 63, was appointed as an Independent Non-executive Director of the Company on 22 October 2007 and is the Chairman of the Company's Remuneration Committee and a member of its Audit Committee. Dr. CHEN is currently the Executive Director of the Harvard Business School Asia Pacific Research Center, the first international research office established by the Harvard Business School in Asia.

Prior to joining the Harvard Business School Asia Pacific Research Center in October 2005, Dr. CHEN worked in both the private and public sectors. Dr. CHEN previously served as Head of the Risk Management Unit of the Private Sector Operations Department of the Asian Development Bank, Head of International Private Banking in Hong Kong of Standard Chartered Bank and as a Regional Director of National Westminster Bank. Dr. CHEN has also served on the boards of Asian Development Bank investee companies and has taught and written cases for various educational entities and universities.

Dr. CHEN graduated with a BA (Honors) Degree in Economics from the University of California, Berkeley in June 1966, and received an MBA from Harvard University in June 1972 and a PhD in Economics from Cornell University in August 1973.

#### LEE Siang Chin

*Independent Non-executive Director*

Mr. LEE Siang Chin, aged 60, was appointed as an Independent Non-executive Director of the Company on 22 October 2007 and is the Chairman of the Company's Audit Committee and a member of its Remuneration Committee. Mr. LEE is an Independent Non-executive Director of the Social Security Organisation of Malaysia, a member of its investment panel and chairman of its audit committee. Mr. LEE also serves as an Independent Non-executive Director for AmInvestment Services Bhd, AmFutures Sdn Bhd, Uni.Asia Life Assurance Bhd and AmFraser Securities Pte. Ltd.

Mr. LEE had previously served as Chairman and Managing Director of Surf88.com Sdn Bhd, and AmSecurities Sdn Bhd respectively, and has worked in corporate finance in leading investment banks in London, Sydney and Kuala Lumpur. Mr. LEE has held various public offices, and had served as a board member of the Kuala Lumpur Stock Exchange and President of the Association of Stock Broking Companies in Malaysia.

Mr. LEE became a member of the Malaysian Institute of Certified Public Accountants in June 1975 and a Fellow of the Institute of Chartered Accountants in England and Wales in January 1979.

#### OYAMA Nobuo

*Independent Non-executive Director*

Mr. Nobuo OYAMA, aged 55, was appointed as an Independent Non-executive Director of the Company on 22 October 2007 and is a member of the Company's Audit and Remuneration Committees. Mr. OYAMA is the founder and Managing Director of Asiavest Co., Ltd. which is an independent investment research and advisory firm in Tokyo, Japan. He has over 30 years of experience in offshore treasury operations for Japanese institutional investors across Japan, United Kingdom and Hong Kong and he worked for Nichimen and Sojitz.

Mr. OYAMA received a Bachelor's degree in Economics from the Kobe University in Japan in March 1976 and became a registered member of the Japan Association for Financial Planners in December 2006.

### Other Senior Management

#### **KONG Hing Keung**

*Head of Dealing*

Mr. KONG Hing Keung, aged 35, joined the Group in July 2000 and is responsible for overseeing the central dealing operations. Prior to joining the Group, he held dealing positions with Chinatrust Commercial Bank Ltd. and The Bank of Tokyo-Mitsubishi Ltd. Mr. KONG graduated from The Chinese University of Hong Kong with a Bachelor's degree in Social Science in December 1996.

#### **LAU Chit Yue Cheryl**

*Sales Director*

Ms. LAU Chit Yue Cheryl, aged 32, joined the Group in April 2007 and has a leadership role in the institutional sales and marketing division. Prior to joining the Group, she worked for Goldman Sachs' Asian equities team in Hong Kong, Royal Bank of Canada and Bank of Montreal in Toronto, Canada. In 1998, Ms. LAU graduated with a Bachelor's degree in Economics from the University of Western Ontario in Canada.

#### **LEE Vivienne, CPA (Aust.)**

*Director, Compliance*

Ms. Vivienne LEE, aged 35, joined the Group in May 2004 to assist in overseeing the compliance department. Prior to joining the Group, Ms. LEE was an Assistant Manager with the Hong Kong Securities and Futures Commission responsible for monitoring and conducting inspection of a portfolio of licensed intermediaries. Prior to that, she was a staff accountant in Ernst & Young responsible for providing financial audit and business advisory services to a number of companies. Ms. LEE graduated from the University of New South Wales with a Bachelor's degree in Economics in 1995 and she is a member of the CPA Australia since January 2000.

Ms. LEE is a member of the Company's Risk Management Committee.

#### **TAM Raymond Hin Tat**

*Sales Director and Head of Retail Business*

Mr. TAM Raymond Hin Tat, aged 34, joined the Group in April 2008. He oversees the retail fund distribution business and involves in the Group's institutional business development. He previously served as Vice President at BlackRock (formerly Merrill Lynch Investment Managers) and worked for the company since 2000. Prior to that, he was with JF Asset Management responsible for direct sales and fund distribution business. Mr. TAM graduated from the University of Western Ontario in Canada with a Bachelor's degree in Economics.

#### **TENG Kooi See**

*Managing Director*

*Value Partners Investment Services Pte. Ltd. ("VPIS")*

Ms. TENG Kooi See, aged 44, is the Managing Director of VPIS in Singapore. She is responsible for business development of VPIS. Ms. TENG first joined the Group in January 2004 to oversee the Investment Services team and institutional business. She was promoted to Managing Director of VPIS in May 2008.

Prior to joining the Group, she held corporate governance roles in Jardine Fleming Holdings Ltd, China Resources Enterprise Ltd and LASMO Plc.

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## Biographies of Directors and Senior Management

### TSE Wai Ming, CFA & FCPA

*Chief Financial Officer*

*Company Secretary*

Mr. TSE Wai Ming, aged 33, joined the Group in January 2007 and is the Chief Financial Officer of the Group. He oversees the Finance and Human Resources Departments. He is also served as the Company Secretary of the Company. Prior to joining the Group, he was a senior manager at Transaction Services Group of KPMG and a manager at Financial Services Group of PricewaterhouseCoopers. Mr. TSE graduated in December 1997 from The Chinese University of Hong Kong with a Bachelor's degree in Business Administration. He became a CFA charterholder in September 2001 and a Fellow of the Hong Kong Institute of Certified Public Accountants in February 2009.

Mr. TSE is a member of the Company's Valuation Committee.

### TSIEN Pak Cheong David

*Managing Director*

*Value Partners Private Equity Limited ("VPPE")*

Mr. TSIEN Pak Cheong David, aged 48, joined the Group in July 2006. He is responsible for business development in the private equity division. Prior to joining the Group, he worked in Jardine Fleming/JP Morgan for 18 years, from 1988 to 2006. He was the head of Jardine Fleming's China broking operation from 1990. Mr. TSIEN had also worked for Peat Marwick and Mitchell in UK and HK, County NatWest as an analyst covering Asia. Mr. TSIEN has extensive experience and knowledge in Greater China equities. He graduated in 1985 from the University of Lancaster, England with a degree in Management Sciences.

### VALADAO Mark

*Executive Director*

*Sensible Asset Management Limited ("SAM")*

Mr. Mark VALADAO, aged 37, joined the Group in July 2007. He is responsible for the management, business development, and sales and marketing of SAM. Prior to that, he was with HSBC Investments (Hong Kong) where he was responsible for the business development of HSBC's Multi-manager unit in the Asia Pacific region. Before joining HSBC, he was a Senior Associate at Mellon Capital Management in San Francisco where he managed and developed global tactical asset allocation and currency strategies for global institutional clients. Mr. VALADAO graduated from California Polytechnic State University with a Bachelor's degree in Business Administration in March 1996.

### WOO Lai Nga, CFA & CPA

*Chief Compliance Officer*

Ms. WOO Lai Nga, aged 32, is the Chief Compliance Officer of the Group and oversees the compliance department. She first joined the Group in October 2002 as Compliance Manager. She was promoted to Compliance Director in May 2004 and was further promoted to Chief Compliance Officer in January 2008. She also assists in overseeing the risk management, legal and internal audit teams of the Group. Prior to that, she was a senior associate of PricewaterhouseCoopers. Ms. WOO graduated in December 1998 from The Chinese University of Hong Kong with a Bachelor's degree in Business Administration. She became a member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants in February 2002 and June 2002 respectively. Ms. WOO became a CFA charterholder in September 2003.

Ms. WOO is the Chairman of the Company's Risk Management Committee.

# Report of the Directors

The board of directors (the “Board” or the “Directors”) of Value Partners Group Limited (the “Company”, together with its subsidiaries, the “Group”) is pleased to present the annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2008.

## Principal activities

The Company is an investment holding company. The activities of its principal subsidiaries are set out in Note 14 to the consolidated financial statements.

## Results

The results of the Group for the year are set out in the Consolidated Income Statements on page 39.

## Dividend

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.

## Summary of results, assets and liabilities

Summary of results, assets and liabilities for the years of 2004 to 2008 are set out on page 3 of this report.

## Share capital

Details of the movements during the year in the share capital of the Company are set out in Note 21 to the financial statements.

## Reserves

Details of the movements during the year in the reserves of the Group are set out in the Consolidated Statement of Changes in Equity on page 43.

In addition to the retained profits of the Company, the share premium account of the Company is also available for distribution to shareholders provided that the Company will be able to pay its debts as they fall due in the ordinary course of business immediately following the date on which any such distribution is proposed to be paid in accordance with the Companies Law of the Cayman Islands.

As at 31 December 2008, the Company’s distributable reserve was HK\$823,563,000.

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## Report of the Directors

### Charitable contributions

During the year, the Group made charitable contributions totalling HK\$563,600.

### Directors

The Board during the year ended 31 December 2008 and up to the date of this report comprised:

#### Executive Directors

Mr. CHEAH Cheng Hye (Chairman and Chief Investment Officer)

Ms. CHAU Yee Man (*appointed on 29 August 2008*)

Mr. HO Man Kei

Ms. HUNG Yeuk Yan Renee (Deputy Chief Investment Officer)

Mr. LAW Ka Kin (Deputy Chief Executive Officer)

Mr. NGAN Wai Wah (Chief Executive Officer)

Mr. SO Chun Ki Louis (Deputy Chief Investment Officer)

#### Non-executive Director

Mr. CHOI Nga Chung (*re-designated from Executive Director to Non-executive Director on 14 November 2008 and resigned on 22 January 2009*)

#### Independent Non-executive Directors

Dr. CHEN Shih Ta Michael

Mr. LEE Siang Chin

Mr. OYAMA Nobuo

In accordance with article 87 of the Company's articles of association, Ms. CHAU Yee Man, Mr. HO Man Kei, Mr. LAW Ka Kin and Mr. Nobuo OYAMA will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Each of the Independent Non-executive Directors has been appointed for a term of one year commencing on 22 November 2008, subject to the provisions of the Company's articles of association.

The Company has received from each of the Independent Non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The Company considers all of the Independent Non-executive Directors are independent.

Biographical details of the directors as at the date of this annual report are set out on pages 15 to 19.

### Directors' service contracts

Each of the Executive Directors, has entered into a service contract with the Company for an initial term of three years commencing on 22 November 2007 or the appointment date (for Ms. CHAU Yee Man) which shall be terminated in accordance with the provisions of the service contract or, throughout the term of the appointment, by either party giving to the other not less than three months' prior notice in writing (other than Mr. CHEAH Cheng Hye whose notice period is six months).

Each of the Independent Non-executive Directors, has entered into a service contract with the Company for one year commencing on 22 November 2008 and either the Company or the Independent Non-executive Director may terminate the appointment by giving at least three months' notice provided that such notice shall not expire until the expiry of one year from 22 November 2008.

Save as disclosed above, none of the directors have entered or have proposed to enter into any service agreement with the Company or any member of the Group which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

### Directors' interests in shares, underlying shares and debentures

As at 31 December 2008, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of Securities and Futures Ordinance (the "SFO")) which had notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which had required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which will be required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, were as follows:

#### (a) Long position in shares of the Company ("Shares")

Name of Director	Nature of interest	Number of Shares	Number of underlying Shares in which the Directors are interested under physically settled equity derivatives <sup>(3)</sup>	Approximate percentage of issued Shares
Mr. CHEAH Cheng Hye	Founder of trust/beneficial <sup>(1)</sup>	570,468,484	–	35.65%
	Beneficial	–	57,050,828	3.56%
Ms. CHAU Yee Man	Beneficial	619,391	5,228,943	0.36%
Mr. HO Man Kei	Beneficial	57,655,209	5,765,923	3.96%
Ms. HUNG Yeuk Yan Renee	Founder of trust <sup>(2)</sup>	40,358,583	–	2.52%
	Beneficial	–	4,036,140	0.25%
Mr. LAW Ka Kin	Beneficial	–	2,400,000	0.15%
Mr. NGAN Wai Wah	Beneficial	30,690,691	8,665,284	2.46%
Mr. SO Chun Ki Louis	Beneficial	40,358,583	4,036,140	2.77%
Mr. CHOI Nga Chung	Beneficial	57,655,209	–	3.60%
Dr. CHEN Shih Ta Michael	Beneficial	–	325,000	0.02%
Mr. LEE Siang Chin	Beneficial	–	325,000	0.02%
Mr. OYAMA Nobuo	Beneficial	–	325,000	0.02%

## Report of the Directors

### Notes:

- (1) These Shares are directly held by Cheah Capital Management Limited (“CCML”) which is wholly-owned by Cheah Company Limited which is in turn wholly-owned by Hang Seng Bank Trustee International Limited, a company incorporated in the Bahamas, as trustee for a discretionary trust, the discretionary objects of which include Mr. CHEAH Cheng Hye and certain members of his family.
- (2) These Shares are directly held by Bright Starlight Limited which is wholly-owned by Scenery Investments Limited which is in turn wholly-owned by Hang Seng Bank Trustee International Limited, a company incorporated in the Bahamas, as trustee for a discretionary trust, the discretionary objects of which include certain members of the family of Ms. HUNG Yeuk Yan Renee.
- (3) The number of underlying Shares in which the Directors are interested under physically settled equity derivatives are detailed in “Share options” section below.

### (b) Interest in associated corporation

Name of Director	Name of associated corporation	Nature of interest	Number of shares	Approximate percentage of issued shares of the relevant associated corporation
Mr. CHEAH Cheng Hye	Value Partners Strategic Equity Fund	Beneficial	74,000 non-voting shares	0.49% of the total issued non-voting shares
Mr. HO Man Kei	Value Partners Strategic Equity Fund	Beneficial	10,000 non-voting shares	0.07% of the total issued non-voting shares
Ms. HUNG Yeuk Yan Renee	Value Partners Strategic Equity Fund	Beneficial	10,000 non-voting shares	0.07% of the total issued non-voting shares
Mr. NGAN Wai Wah	Value Partners Strategic Equity Fund	Beneficial	51,000 non-voting shares	0.34% of the total issued non-voting shares
Mr. CHOI Nga Chung	Value Partners Strategic Equity Fund	Beneficial	10,000 non-voting shares	0.07% of the total issued non-voting shares
Mr. LEE Siang Chin	Value Partners Strategic Equity Fund	Corporate (Note)	50,000 non-voting shares	0.33% of the total issued non-voting shares

Note: These non-voting shares are directly held by Stenyng Holdings Limited, whose entire issued share capital is held by Mr. LEE Siang Chin and Ms. KOO Yoon Kin in equal shares. Ms. KOO Yoon Kin is the spouse of Mr. LEE Siang Chin.



## Report of the Directors

### (c) Share options

The Company adopted a share option scheme on 24 October 2007 (and as amended on 15 May 2008) and a Pre-IPO share option was granted to Mr. LAW Ka Kin on 29 October 2007. Details of the grant of share options and a summary of the movements of the outstanding share options during the year ended 31 December 2008 were as follows:

Grantee	Date of grant	Exercise period	Exercise price (HK\$)	As at 01/01/2008	Number of share options			As at 31/12/2008
					Granted	Exercised	Lapsed	
<b>Directors</b>								
Mr. CHEAH Cheng Hye	26/03/2008	26/03/2008-25/09/2014	5.50	-	1,600,000	-	-	1,600,000
	15/05/2008	15/05/2008-14/11/2014	5.50	-	55,450,828	-	-	55,450,828
Ms. CHAU Yee Man	26/03/2008	25/03/2009-25/09/2014	5.50	-	1,742,981	-	-	1,742,981
		25/03/2010-25/09/2014	5.50	-	1,742,981	-	-	1,742,981
		25/03/2011-25/09/2014	5.50	-	1,742,981	-	-	1,742,981
Mr. HO Man Kei	26/03/2008	26/03/2008-25/09/2014	5.50	-	5,765,923	-	-	5,765,923
Ms. HUNG Yeuk Yan Renee	26/03/2008	26/03/2008-25/09/2014	5.50	-	4,036,140	-	-	4,036,140
Mr. LAW Ka Kin	29/10/2007	22/05/2008-21/11/2008	7.63	525,000	-	-	(525,000)	-
	26/03/2008	26/03/2008-25/09/2014	5.50	-	2,400,000	-	-	2,400,000
Mr. NGAN Wai Wah	26/03/2008	26/03/2008-25/09/2014	5.50	-	8,665,284	-	-	8,665,284
Mr. SO Chun Ki Louis	26/03/2008	26/03/2008-25/09/2014	5.50	-	4,036,140	-	-	4,036,140
Mr. CHOI Nga Chung	26/03/2008	26/03/2008-25/09/2014	5.50	-	5,765,923	-	(5,765,923)	-
Dr. CHEN Shih Ta Michael	15/05/2008	22/11/2008-21/11/2010	7.56	-	325,000	-	-	325,000
Mr. LEE Siang Chin	15/05/2008	22/11/2008-21/11/2010	7.56	-	325,000	-	-	325,000
Mr. OYAMA Nobuo	15/05/2008	22/11/2008-21/11/2010	7.56	-	325,000	-	-	325,000
Employees	26/03/2008	26/03/2008-25/09/2014	5.50	-	14,556,819	-	(903,000)	13,653,819
		25/03/2009-25/09/2014	5.50	-	2,950,670	-	(311,000)	2,639,670
		25/03/2010-25/09/2014	5.50	-	2,950,670	-	(311,000)	2,639,670
		25/03/2011-25/09/2014	5.50	-	2,950,660	-	(311,000)	2,639,660
	15/05/2008	14/05/2009-31/12/2010	7.56	-	889,000	-	-	889,000
		14/05/2010-31/12/2010	7.56	-	889,000	-	-	889,000
		02/07/2010-31/12/2010	7.56	-	889,000	-	-	889,000
<b>Total</b>				<b>525,000</b>	<b>120,000,000</b>	<b>-</b>	<b>(8,126,923)</b>	<b>112,398,077</b>

## Report of the Directors

### Notes:

1. The closing prices of the shares immediately before the share options granted on 26 March 2008 and 15 May 2008 were HK\$5.50 and HK\$7.56 respectively.
2. No share option was cancelled during the period under review.
3. The share options granted to Mr. CHEAH Cheng Hye was in excess of his individual limit under the Listing Rules. The grant of excess share options to Mr. CHEAH was approved in the annual general meeting of the Company held on 15 May 2008.

Save as disclosed above, at no time during the year as the Company or its subsidiaries a party to any arrangement that enabled the Directors or any of their spouses or children under the age of 18 to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

All the options forfeited before expiry of the Scheme will be treated as lapsed option which will not be added back to the number of shares available to be issued under the Scheme.

## Substantial shareholders' interests

As at 31 December 2008, the following persons (other than a Director or chief executive of the Company) had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who are, directly or indirectly to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

### Long position in the shares under the SFO

Name	Nature of interest	Number of Shares	Approximate percentage of issued Shares
Ms. TO Hau Yin <sup>(1)</sup>	Spouse	627,519,312	39.21%
Mr. YEH V-Nee	Beneficial	292,523,324	18.28%
Ms. LIANG Mira <sup>(2)</sup>	Spouse	292,523,324	18.28%
Cheah Capital Management Limited <sup>(3)</sup>	Beneficial	570,468,484	35.65%
Cheah Company Limited <sup>(3)</sup>	Corporate	570,468,484	35.65%
Hang Seng Bank Trustee International Limited <sup>(3)(4)</sup>	Trustee	610,827,067	38.17%
Hang Seng Bank Limited <sup>(3)(4)</sup>	Interest of controlled corporation	610,827,067	38.17%
The Hongkong and Shanghai Banking Corporation Limited <sup>(3)(4)</sup>	Interest of controlled corporation	610,827,067	38.17%

## Report of the Directors

### Long position in the shares under the SFO (continued)

Name	Nature of interest	Number of Shares	Approximate percentage of issued Shares
HSBC Asia Holdings BV <sup>(3)(4)</sup>	Interest of controlled corporation	610,827,067	38.17%
HSBC Asia Holdings (UK) <sup>(3)(4)</sup>	Interest of controlled corporation	610,827,067	38.17%
HSBC Holdings BV <sup>(3)(4)</sup>	Interest of controlled corporation	610,827,067	38.17%
HSBC Finance (Netherlands) <sup>(3)(4)</sup>	Interest of controlled corporation	610,827,067	38.17%
HSBC Holdings plc <sup>(3)(4)</sup>	Interest of controlled corporation	610,827,067	38.17%
Value Holdings, LLC	Corporate	92,333,542	5.77%
Ping An Insurance (Group) Company of China, Ltd. <sup>(5)</sup>	Corporate	144,000,000	9.00%
Passport Global Master Fund SPC Ltd for and on behalf of portfolio A - global strategy <sup>(6)</sup>	Beneficial	80,309,300	5.02%
Passport Management, LLC <sup>(6)</sup>	Investment manager	80,000,000	5.00%
Passport Capital, LLC <sup>(6)</sup>	Interest of controlled corporation	80,000,000	5.00%
Mr. John H. BURBANK III <sup>(6)</sup>	Interest of controlled corporation	80,000,000	5.00%

#### Notes:

- (1) Ms. TO Hau Yin is the spouse of Mr. CHEAH Cheng Hye.
- (2) Ms. LIANG Mira is the spouse of Mr. YEH V-Nee.
- (3) Cheah Capital Management Limited ("CCML") is wholly-owned by Cheah Company Limited which in turn is wholly-owned by Hang Seng Bank Trustee International Limited, a company incorporated in the Bahamas, as trustee for a discretionary trust, the discretionary objects of which include Mr. CHEAH Cheng Hye and certain members of his family. For the purposes of the SFO, Mr. CHEAH Cheng Hye is the founder of this trust.
- (4) This includes 570,468,484 Shares held by CCML and 40,358,583 Shares held by Bright Starlight Limited. Bright Starlight Limited is wholly-owned by Scenery Investments Limited which in turn is wholly-owned by Hang Seng Bank Trustee International Limited, a company incorporated in the Bahamas, as trustee for a discretionary trust, the discretionary objects of which include certain members of the family of Ms. HUNG Yeuk Yan Renee. For the purposes of the SFO, Ms. HUNG Yeuk Yan Renee is the founder of this trust. Hang Seng Bank Trustee International Limited is wholly-owned by Hang Seng Bank Limited. Hang Seng Bank Limited is a subsidiary of The Hongkong and Shanghai Banking Corporation Limited. The Hongkong and Shanghai Banking Corporation Limited is a subsidiary of HSBC Asia Holdings BV, which is a wholly-owned subsidiary of HSBC Asia Holdings (UK), which in turn is a wholly-owned subsidiary of HSBC Holdings BV. HSBC Holdings BV is a wholly-owned subsidiary of HSBC Finance (Netherlands), which in turn is wholly-owned by HSBC Holdings plc.
- (5) These Shares are directly held as to 79,840,000 Shares by Ping An Life Insurance Company of China, Ltd. and as to 64,160,000 Shares by Ping An Property & Casualty Insurance Company of China, Ltd., and the ultimate holding company of each of the above companies is Ping An Insurance (Group) Company of China, Ltd.
- (6) Passport Management, LLC serves as investment manager to various investment funds (including Passport Global Master Fund SPC Ltd for and on behalf of portfolio A - global strategy) and therefore has a controlling interest over the Shares beneficially owned by these funds. Passport Capital, LLC is the sole managing member of Passport Management, LLC. Mr. John H. BURBANK III is the sole managing member of Passport Capital, LLC. As a result, each of Mr. John H. BURBANK III and Passport Capital, LLC may be considered to joint actors with Passport Management, LLC.

### Directors' interest in contracts of significance

No contract of significance to which the Company or any of its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

### Share options

A share option scheme (the "Share Option Scheme") was adopted by the sole shareholder's written resolution of the Company dated 24 October 2007 (and as amended on 15 May 2008). A summary of the principal terms of the Share Option Scheme is set out below.

**1. Purpose of the Share Option Scheme**

To reward Participants who have contributed to the Group and to encourage Participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its Shareholders as a whole.

**2. Participants of the Share Option Scheme**

Directors (including Executive Directors, Non-executive Directors and Independent Non-executive Directors) and employees of the Group and any advisors, consultants, distributors, contractors, suppliers, agents, customers, business partners, joint venture business partners, promoters, service providers of any member of the Group who the Board considers, in its sole discretion, have contributed or will contribute to the Group.

**3. Total number of shares available for issue under the Share Option Scheme and percentage of issued share capital as at 31 December 2008**

160,000,000 shares (10%)

**4. Maximum entitlement of each participant under the Share Option Scheme**

In any 12-month period, in aggregate not over:-

- (a) 1% of the issued share capital (excluding substantial shareholders and Independent Non-executive Directors).
- (b) 0.1% of the issued share capital and exceeding HK\$5 million in aggregate value (for substantial shareholders and Independent Non-executive Directors).

Such further grant of options shall be subject to prior approval by resolution of the Shareholders.

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## Report of the Directors

5. **The period within which the shares must be taken up under an option**

In respect of any particular option, the period to be determined and notified by the Board to the grantee at the time of making an offer which shall not expire later than 10 years from the date of grant.

6. **The minimum period for which an option must be held before it can be exercised**

Nil

7. **The amount payable on application or acceptance of the option and the period within which payments or calls must or may be made or loans for such purposes must be repaid**

Upon acceptance of the option, the grantee shall inform the Company together with HK\$1 by way of consideration for the grant within 28 days from the date of offer.

8. **The basis of determining the exercise price**

The exercise price shall be determined by the Board in its absolute discretion but in any event shall not be less than the higher of:–

- (a) the closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange on the Date of Grant which must be a business day;
- (b) the average closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the Date of Grant; and
- (c) the nominal value of the Shares.

9. **The remaining life of the Share Option Scheme**

The Share Option Scheme will remain valid until 23 October 2017.

## Connected transactions and continuing connected transactions

During the year, the Company did not have any connected transactions which were subject to the requirements of the Listing Rules.

## Management contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

### Directors' and the five highest paid individuals' emoluments

The directors' fees and remuneration and the emoluments of the five highest paid individuals are disclosed in Note 7 to the consolidated financial statements. The emoluments of the Directors are determined with regard to their duties and responsibilities, the Company's performance, prevailing market conditions and after considering the market emoluments for Directors of other listed companies.

### Pension schemes

Pension costs for the year are set out in Note 7 to the consolidated financial statements.

### Sufficiency of public float

As at the latest practicable date prior to the issue of this annual report, to the best knowledge of the Directors and based on the information publicly available to the Company, there is a sufficient public float as required by the Listing Rules.

### Purchase, redemption or sale of listed shares of the Company

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed shares during the year.

### Pre-emptive rights

There is no provision for pre-emptive rights under the Company's articles of association although there are no restrictions against such rights under the Companies Law in the Cayman Islands.

### Major customers and suppliers

The aggregate total fees income and distribution fees attributable to the Group's five largest customers (in terms of AUM as at the end of year) and suppliers were approximately 32.7% and 65.1% of the Group's total fees income and distribution fees respectively for the year ended 31 December 2008.

The Group's largest customer (in terms of AUM as at the end of year) accounted for approximately 18.9% of total fees income whereas our largest supplier accounted for approximately 21.4% of total distribution fees.

None of the Directors or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's top five largest customers or suppliers.

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## Report of the Directors

### Property, plant and equipment

Details of movements in property, plant and equipment during the year are set out in Note 15 to the consolidated financial statements.

### Post balance sheet event

Post balance sheet event is set out in Note 31 to the consolidated financial statements.

### Auditor

Effective from 27 December 2006 and up to the date of this report, the external auditor of the Group is Messrs PricewaterhouseCoopers. Prior to this, Horwath Hong Kong CPA Limited (now known as Shu Lun Pan Horwath Hong Kong CPA Limited) was the external auditor of the Group up to and including the financial year ended 31 December 2005.

The financial statements have been audited by Messrs PricewaterhouseCoopers, who retire and, being eligible, offer themselves for reappointment.

A resolution to re-appoint Messrs PricewaterhouseCoopers as auditors of the Company will be submitted at the annual general meeting of the Company.

On behalf of the Board

**CHEAH Cheng Hye**

*Chairman and Chief Investment Officer*

Hong Kong, 12 March 2009

# Corporate Governance Report

The Board of Directors of the Company (the “Board” or “Directors”) is committed to maintaining high standard of corporate governance and ensuring integrity, transparency and adequate level of disclosure.

## Corporate governance practices

In the Directors’ opinion, the Company implemented additional measures to comply with the Code on Corporate Governance Practices (the “CG Code”) set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) throughout the year of 2008. To the knowledge of the Directors and save as disclosed herein, the Directors consider that the Company has applied the principles of the CG Code and most of the recommended best practices thereof and are not aware of any non-compliance with the code provisions in the CG Code for the year ended 31 December 2008.

## Securities transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors (the “Model Code”) set out in Appendix 10 of the Listing Rules as the code of conduct in respect of transactions in securities of the Company by Directors. The Company, having made specific enquiry of all the Directors, was not aware of any non-compliance with the Model Code by the Directors during the year.

## Board of Directors

The Board is responsible for overseeing and directing overall strategy and management of the Company, supervising and monitoring the Group’s major corporate matters and evaluating the performance of the Group. The management is responsible for day-to-day management of the Company under the leadership of the Chief Executive Officer with the support by other senior management members. The composition of the Board and the biographical details of the Directors and senior management members are set out in the Report of the Directors and also Biographies of Directors and Senior Management sections of this annual report respectively.

The Board held five meetings in 2008. The attendance record of each Director at the board meetings in 2008 is set out below:

	No. of board meetings attended/held
<b>Executive Directors</b>	
Mr. CHEAH Cheng Hye (Chairman and Chief Investment Officer)	5/5
Ms. CHAU Yee Man	2/3 ( <i>Note</i> )
Mr. HO Man Kei	5/5
Ms. HUNG Yeuk Yan Renee (Deputy Chief Investment Officer)	5/5
Mr. LAW Ka Kin (Deputy Chief Executive Officer)	5/5
Mr. NGAN Wai Wah (Chief Executive Officer)	5/5
Mr. SO Chun Ki Louis (Deputy Chief Investment Officer)	5/5
<b>Non-executive Director</b>	
Mr. CHOI Nga Chung	3/5
<b>Independent Non-executive Directors</b>	
Dr. CHEN Shih Ta Michael	5/5
Mr. LEE Siang Chin	5/5
Mr. OYAMA Nobuo	5/5

*Note:* Ms. CHAU Yee Man was appointed as Executive Director on 29 August 2008.



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## Corporate Governance Report

To the best knowledge of the Directors, the Board is not aware of any financial, business, family or other material/relevant relationships among the board members. All of them are free to exercise their independent judgment. All the Directors had attended an intensive directors training organized by our external legal adviser which covered four main topics including directors duties and liabilities, post listing regulations, continuing obligations of a listed company and corporate governance. Ongoing updates of any applicable laws and regulations were provided by the Company to the Directors in a reasonable time frame.

Each of the Executive Directors entered into a service contract with the Company for a term of three years commencing from 22 November 2007 or the appointment date (for Ms. CHAU Yee Man), the Non-executive Director entered into a service contract with the Company for a term of one year commencing from 14 November 2008 (for Mr. CHOI Nga Chung) and each of the Independent Non-executive Directors entered into a service contract with the Company for a term of one year commencing from 22 November 2008.

The Company has received the annual confirmation of independence from all the Independent Non-executive Directors pursuant to Rule 3.13 of the Listing Rules and considered them independent to the Group.

The Company has arranged appropriate director and officer liability insurance coverage, which is reviewed on an annual basis, for liabilities arising out of activities from being the Directors and senior management of the Group.

### Chairman and Chief Executive Officer

The Company has two different persons for the positions of the Chairman of the Board and Chief Executive Officer. The Chairman of the Board, Mr. CHEAH Cheng Hye, chairs all the board meetings and general meetings. He is also responsible for the overall business and investment strategies of the Group. The Chief Executive Officer of the Company, Mr. NGAN Wai Wah, is responsible for the overall management and operations of the Group, developing and implementing the Company's policies and procedures, negotiating with distributors and customers on major contracts and formulating pricing strategies to respond market changes.

### Nomination of Directors

The Company does not have a nomination committee, which is the practice followed by some listed companies. However, the Board believes it has adequate measures to ensure new appointments will be made on merit and against objective criteria. The Board is collectively responsible for nominating new Directors either to fill casual vacancies or as additional members. The structure, size and composition of the Board will be reviewed from time to time to ensure the Board has balanced skills and expertise to provide effective leadership to the Company. In 2008, the Board nominated and appointed Ms. CHAU Yee Man as additional Executive Director.

### Board committees

The Board has established the following committees with defined terms of reference (available on the Company's website), which are of no less exacting terms than those set out in the Code on Corporate Governance Practices of the Listing Rules:

#### 1. Remuneration Committee

The Company established the Remuneration Committee on 24 October 2007 with written terms of reference in compliance with the CG Code. The primary duties of the Remuneration Committee included determining the policy and structure for the remuneration of Executive Directors, evaluating the performance of Executive Directors, reviewing incentive schemes and Directors' service contracts and fixing the remuneration packages for all Directors and senior management. The Remuneration Committee has five members comprising Mr. CHEAH Cheng Hye, Dr. CHEN Shih Ta Michael, Mr. LEE Siang Chin, Mr. NGAN Wai Wah and Mr. Nobuo OYAMA, three of which are Independent Non-executive Directors. The Remuneration Committee is chaired by Dr. CHEN Shih Ta Michael.

The Remuneration Committee held three meetings in 2008. The attendance record of each member at the Remuneration Committee meetings in 2008 is set out below:

	No. of Remuneration Committee meetings attended/held
Dr. CHEN Shih Ta Michael ( <i>Chairman</i> )	3/3
Mr. CHEAH Cheng Hye	3/3
Mr. LEE Siang Chin	3/3
Mr. NGAN Wai Wah	3/3
Mr. OYAMA Nobuo	3/3

In the Remuneration Committee meetings, the members reviewed, discussed and/or approved the issues related to:

- The salary review and bonus payment for Executive Directors, senior management and general staff of the Group with reference to industry benchmarking, individual performance and other factors.
- The grant of share option to Directors, senior management and certain staff of the Group.
- The service contract for Ms. CHAU Yee Man, the Executive Director appointed during the year.
- The new service contracts for Independent Non-executive Directors.
- The service contract for Mr. CHOI Nga Chung, re-designated from Executive Director to Non-executive Director during the year.
- The backup arrangement for key persons of the Group.

### 2. Audit Committee

The Company established the Audit Committee on 24 October 2007 with written terms of reference in compliance with the CG Code. The primary duties of the Audit Committee are considering of how the Board should apply financial reporting and internal control principles and maintaining an appropriate relationship with the Company's auditors. The Audit Committee comprises Dr. CHEN Shih Ta Michael, Mr. LEE Siang Chin and Mr. Nobuo OYAMA, all are Independent Non-executive Directors. The Audit Committee is chaired by Mr. LEE Siang Chin.

The Audit Committee held three meetings in 2008. The attendance record of each member at the Audit Committee meetings in 2008 is set out below:

	No. of Audit Committee meetings attended/held
Mr. LEE Siang Chin ( <i>Chairman</i> )	3/3
Dr. CHEN Shih Ta Michael	3/3
Mr. OYAMA Nobuo	3/3

In the Audit Committee meetings, the members reviewed, discussed and/or approved the issues related to:

- The Group's interim and annual results, preliminary announcements and reports.
- The auditor's remuneration and its terms of engagement.
- Review of the work performed by risk control, compliance and internal audit departments.
- The setting up of business continuity plan.

### 3. Risk Management Committee

The Company established the Risk Management Committee on 24 October 2007. The primary duties of the Risk Management Committee are to establish and maintain effective policies and guidelines to ensure proper management of risks to which the Group and its clients are exposed and to take appropriate and timely action to manage such risks. The Risk Management Committee comprises Mr. CHEAH Cheng Hye, Mr. Mark DICKENS, J.P. (*Note*), Mr. LAW Ka Kin, Mr. NGAN Wai Wah, Mr. SO Chun Ki Louis and Ms. WOO Lai Nga. The Risk Management Committee is chaired by Mr. Mark DICKENS, J.P. (*Note*).

*Note:* Mr. Mark DICKENS, J.P. was resigned from the Group and Risk Management Committee on 31 December 2008. Ms. Vivienne LEE was appointed as a member of the Risk Management Committee and the Committee has been chaired by Ms. WOO Lai Nga with effect from 1 January 2009.

The Risk Management Committee held four meetings in 2008. The following monitoring measures were approved and implemented:

- A new risk system was subscribed to improve the risk management monitoring process.
- On-going monitoring on exposure to external business partners, such as prime brokers, deposit banks and participation note issuers was strengthened.
- An email archiving and monitoring policy was adopted. It was implemented in early 2009.
- Procedures and priorities for enhancement of fund management system were reviewed and strengthened.

### 4. Valuation Committee

The Company established the Valuation Committee on 31 January 2008. The primary duties of the Valuation Committee are ensuring that the investment instruments of funds under the Group's management are appropriately valued by persons independent of those who manage the funds and, in particular that these values are fair to fund investors. The Valuation Committee comprises Mr. LAW Ka Kin, Mr. NGAN Wai Wah and Mr. TSE Wai Ming. The Valuation Committee is chaired by Mr. NGAN Wai Wah.

The Valuation Committee held fifteen meetings in 2008. The members reviewed, discussed and/or approved the valuation of various securities, convertible bonds and funds invested by the funds managed by the Group.

### Internal control

It is the responsibility of the Board to ensure that the Group maintains sound and effective system of internal controls. The key procedures to provide effective internal controls are set out in more details in the Group's prospectus but are briefly described as follows:

- The internal control system of the Group has an organizational structure with clear reporting lines and supervisory and reporting responsibilities assigned to qualified and experienced persons.
- Key duties and functions are appropriately segregated.
- The Group use independent, reputable and credible custodian banks to safeguard clients' assets.
- Client identification and prevention of money laundering and terrorist financing procedures are conducted to verify the identity and source of funds.
- All subscription/redemption monies are made payable directly to/from the custodian banks.
- Detailed written compliance manual, policies and procedures are in place which all staff are provided with, and are required to review and follow.
- Staff who are licensed persons are required to attend continuous professional training.
- A business contingency plan is in place to provide continuation of critical business operations in the event of disaster, whether natural or man-made.

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## Corporate Governance Report

The Head of Internal Audit, oversees internal audit matters. The roles and functions of the Internal Audit Department include:

- Conducting audit reviews to assess level of adherence to company policies and procedures and follow up on issues identified.
- Evaluating the adequacy, effectiveness and efficiency of internal controls and procedures and providing recommendations to senior management.
- Reviewing procedure manuals.

Periodic reports on the internal control status of the Group's operations prepared by the Internal Audit Department are submitted to the Audit Committee for review. The reports will specify any internal issues that may have been identified, details on how the issues have been dealt with and offer recommendations on how the procedures can be improved.

The Board, through the Audit Committee, assesses on an annual basis the effectiveness of the Group's internal control system which covers all material controls, including financial, operational, compliance and risk management functions.

### Auditor's remuneration

The remuneration of the audit services rendered by the auditor of the Company was mutually agreed in view of the scope of services and the audit fee for the year ended 31 December 2008 was approximately HK\$1.6 million. In addition, the auditor of the Company also provided tax services and other engagements to the Group in 2008 and the fees were approximately HK\$0.6 million and HK\$1.3 million respectively.

### Preparation of Financial Statements

The Directors acknowledge their responsibility for preparing consolidated financial statements of the Group for the year ended 31 December 2008 (the "Financial Statements") and the auditor of the Company also set out their reporting responsibilities on the Financial Statements in its auditor's report of this annual report.

### Shareholders' rights

Pursuant to the Articles of Association of the Company, the Board may whenever it thinks fit call an extraordinary general meeting. Any one or more members holding at the date of deposit of the requisition not less than one-tenth of such of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition.

The Company regards the Annual General Meeting an important event as it provides an opportunity for the Board to communicate with the shareholders. Active participation by the shareholders at the Annual General Meeting is highly welcomed.

The Corporate Communications Department of the Company responds to emails, letters and telephone enquiries from the public, shareholders and investors. Whenever there is enquiry on matters in relation to the Company, he or she may put such enquires in writing and address the same to the principal place of business of the Company in Hong Kong or through an email to [vpg@vp.com.hk](mailto:vpg@vp.com.hk). The Company provides information relating to the Company and its business (in electronic version) through its website at [www.valuepartnersgroup.com.hk](http://www.valuepartnersgroup.com.hk).

# Independent Auditor's Report

## INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF VALUE PARTNERS GROUP LIMITED

*(Incorporated in the Cayman Islands with limited liability)*

We have audited the consolidated financial statements of Value Partners Group Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 39 to 95, which comprise the consolidated and company balance sheets as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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## Independent Auditor's Report

### INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF VALUE PARTNERS GROUP LIMITED

*(Incorporated in the Cayman Islands with limited liability)*

## Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**PricewaterhouseCoopers**  
Certified Public Accountants

Hong Kong, 12 March 2009

# Consolidated Income Statement

For the year ended 31 December 2008

	Note	2008 HK\$'000	2007 HK\$'000
<b>Income</b>			
Revenue	6	421,860	2,540,757
Other income	6	37,523	71,261
<b>Total income</b>		<b>459,383</b>	<b>2,612,018</b>
<b>Expenses</b>			
Distribution fees		49,205	199,862
Compensation and benefit expenses	7	199,115	614,833
Operating lease rentals		9,808	9,544
Advisory fees		11,923	67,139
Other expenses	8	38,665	85,379
<b>Total expenses</b>		<b>308,716</b>	<b>976,757</b>
<b>Other (losses)/gains — net</b>	9	<b>(58,161)</b>	<b>20,088</b>
<b>Operating profit</b>		<b>92,506</b>	<b>1,655,349</b>
Share of loss of joint ventures	17	—	(203)
<b>Profit before tax</b>		<b>92,506</b>	<b>1,655,146</b>
Tax expense	10	(25,908)	(235,618)
<b>Profit for the year</b>		<b>66,598</b>	<b>1,419,528</b>
<b>Attributable to</b>			
Equity holders of the Company		66,598	1,419,528
<b>Earnings per share (HK cent per share)</b>			
— basic	12.1	4.2	88.7
— diluted	12.2	4.2	88.7
<b>Dividends (HK\$'000)</b>			
— by the Company	13	88,000	568,000
— by Value Partners Limited	13	—	660,000
<b>Total dividends</b>		<b>88,000</b>	<b>1,228,000</b>

The notes on pages 45 to 95 are an integral part of these consolidated financial statements.



# Consolidated Balance Sheet

As at 31 December 2008

	Note	2008 HK\$'000	2007 HK\$'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	15	4,165	6,372
Intangible assets	16	1,635	2,034
Investments	18	146,757	228,064
Deferred tax assets	23	259	—
Other assets		1,746	1,746
<b>Total non-current assets</b>		<b>154,562</b>	<b>238,216</b>
<b>Current assets</b>			
Investments	18	7,596	9,076
Fees receivable	19	33,359	1,696,603
Prepayments and other receivables		11,439	18,325
Cash and cash equivalents	20	562,165	745,088
<b>Total current assets</b>		<b>614,559</b>	<b>2,469,092</b>
<b>Total assets</b>		<b>769,121</b>	<b>2,707,308</b>
<b>EQUITY</b>			
<b>Capital and reserves attributable to equity holders of the Company</b>			
Share capital and share premium	21	53,767	53,767
Other reserves	22	131,108	100,146
Retained earnings			
— proposed dividends		—	568,000
— others		557,212	491,901
<b>Total equity</b>		<b>742,087</b>	<b>1,213,814</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Deferred tax liabilities	23	—	126

On behalf of the Board

NGAN Wai Wah  
Director

LAW Ka Kin  
Director

The notes on pages 45 to 95 are an integral part of these consolidated financial statements.

## Consolidated Balance Sheet

As at 31 December 2008

	Note	2008 HK\$'000	2007 HK\$'000
<b>Current liabilities</b>			
Accrued bonus		7,982	537,552
Distribution fees payable	24	9,706	151,667
Other payables and accrued expenses		8,676	45,287
Current tax liabilities		670	98,862
Dividends payable		—	660,000
<b>Total current liabilities</b>		<u>27,034</u>	<u>1,493,368</u>
<b>Total liabilities</b>		<u>27,034</u>	<u>1,493,494</u>
<b>Total equity and liabilities</b>		<u>769,121</u>	<u>2,707,308</u>
<b>Net current assets</b>		<u>587,525</u>	<u>975,724</u>
<b>Total assets less current liabilities</b>		<u>742,087</u>	<u>1,213,940</u>

On behalf of the Board

NGAN Wai Wah  
*Director*

LAW Ka Kin  
*Director*

The notes on pages 45 to 95 are an integral part of these consolidated financial statements.

# Balance Sheet

As at 31 December 2008

	Note	2008 HK\$'000	2007 HK\$'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investments in subsidiaries	14	963,764	968,659
<b>Current assets</b>			
Prepayments and other receivables		112	198
Cash and cash equivalents	20	68,722	2,374
<b>Total current assets</b>		<b>68,834</b>	<b>2,572</b>
<b>Total assets</b>		<b>1,032,598</b>	<b>971,231</b>
<b>EQUITY</b>			
<b>Capital and reserves attributable to equity holders of the Company</b>			
Share capital and share premium	21	920,581	920,581
Share-based compensation reserve	22	127,765	574
(Accumulated losses)/retained earnings	22	(64,783)	1,586
<b>Total equity</b>		<b>983,563</b>	<b>922,741</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Amounts due to a subsidiary	30.4	48,740	48,490
<b>Current liabilities</b>			
Other payables and accrued expenses		295	—
<b>Total liabilities</b>		<b>49,035</b>	<b>48,490</b>
<b>Total equity and liabilities</b>		<b>1,032,598</b>	<b>971,231</b>
<b>Net current assets</b>		<b>68,539</b>	<b>2,572</b>
<b>Total assets less current liabilities</b>		<b>1,032,303</b>	<b>971,231</b>

On behalf of the Board

NGAN Wai Wah  
Director

LAW Ka Kin  
Director

The notes on pages 45 to 95 are an integral part of these consolidated financial statements.

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2008

	Note	Attributable to equity holders of the Company			Total HK\$'000
		Share capital and share premium HK\$'000	Other reserves HK\$'000	Retained earnings HK\$'000	
<b>At 1 January 2007</b>		53,767	75,584	848,863	978,214
Share-based compensation	21, 22	—	574	—	574
Fair value gains on available-for-sale financial assets	22	—	23,988	—	23,988
Profit for the year		—	—	1,419,528	1,419,528
Dividends		—	—	(1,208,490)	(1,208,490)
<b>At 31 December 2007</b>		<u>53,767</u>	<u>100,146</u>	<u>1,059,901</u>	<u>1,213,814</u>
<b>At 1 January 2008</b>		53,767	100,146	1,059,901	1,213,814
Share-based compensation	21, 22	—	127,190	—	127,190
Fair value losses on available-for-sale financial assets	22	—	(12,935)	—	(12,935)
Adjustment on an available-for-sale financial asset	22	—	3,420	—	3,420
Other adjustment	22	—	(86,713)	86,713	—
Profit for the year		—	—	66,598	66,598
Dividends		—	—	(656,000)	(656,000)
<b>At 31 December 2008</b>		<u>53,767</u>	<u>131,108</u>	<u>557,212</u>	<u>742,087</u>

The notes on pages 45 to 95 are an integral part of these consolidated financial statements.

# Consolidated Cash Flow Statement

For the year ended 31 December 2008

	Note	2008 HK\$'000	2007 HK\$'000
<b>Cash flows from operating activities</b>			
Net cash generated from operations	26	1,213,887	1,278,378
Cash gift	30.5	54,600	—
Interest received		18,816	28,660
Tax paid		(124,485)	(277,909)
<b>Net cash generated from operating activities</b>		<b>1,162,818</b>	<b>1,029,129</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment and intangible assets		(2,271)	(2,309)
Disposal of property, plant and equipment and intangible assets		32	—
Acquisition of subsidiaries		(440)	—
Disposal of subsidiaries		250	—
Changes in receivables from joint ventures		—	(122)
Disposal of joint ventures		—	2,186
Purchase of investments		(52,922)	(114,844)
Disposal of investments		2,261	73,656
Closing of derivative financial instruments		3,340	(6,389)
Advance to a related party	30.3	(1,163)	—
Dividends received from investments		21,172	40,017
<b>Net cash used in investing activities</b>		<b>(29,741)</b>	<b>(7,795)</b>
<b>Cash flows from financing activities</b>			
Dividends paid		(1,316,000)	(548,490)
<b>Net cash used in financing activities</b>		<b>(1,316,000)</b>	<b>(548,490)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(182,923)</b>	<b>472,844</b>
Cash and cash equivalents at beginning of the year		745,088	272,244
<b>Cash and cash equivalents at end of the year</b>		<b>562,165</b>	<b>745,088</b>

The notes on pages 45 to 95 are an integral part of these consolidated financial statements.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

## 1 General information

Value Partners Group Limited (the “Company”) was incorporated in the Cayman Islands as Value Partners Capital Limited on 10 November 2006 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The name changed to Value Partners Co. Ltd. and subsequently to Value Partners Group Limited on 8 January 2007 and 23 January 2007 respectively pursuant to the respective sole shareholder’s resolutions. The address of its registered office and its principal place of business are Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands and Level 14, Three Pacific Place, 1 Queen’s Road East, Hong Kong, respectively.

The Company acts as an investment holding company. The activities of its principal subsidiaries are disclosed in Note 14 below. The Company and its subsidiaries (together, the “Group”) principally provides investment management services to investment funds and managed accounts. The Company is listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”).

These consolidated financial statements are presented in thousands of Hong Kong dollars (HK\$’000), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 12 March 2009.

## 2 Summary of significant accounting policies

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

### 2.1 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 as disclosed in Note 21 below and thereafter became the immediate and ultimate holding company of the subsidiaries now comprising the Group as disclosed in Note 14 below in preparation for the listing of shares of the Company on the Main Board of the Hong Kong 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”). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of investments.

## 2 Summary of significant accounting policies *(continued)*

### 2.1 Basis of preparation *(continued)*

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires the directors to exercise their judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4 below.

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

- The HKAS 39 "Financial Instruments: Recognition and Measurement", amendment on reclassification of financial assets permits reclassification of certain financial assets out of the held-for-trading and available-for-sale categories if specified conditions are met. The related amendment to HKFRS 7 "Financial Instruments: Disclosures" introduces disclosure requirements with respect to financial assets reclassified out of the held-for-trading and available-for-sale categories. The amendment is effective prospectively from 1 July 2008. This amendment does not have any impact on the Group's financial statements, as the Group has not reclassified any financial assets in accordance with this amendment.
- HK(IFRIC) — Int 11 "HKFRS 2 — Group and Treasury Share Transactions" provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone financial statements of the parent and group companies. There is no impact on the Group's financial statements.

#### *Standards which are not yet effective*

Certain new standards, amendments to 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" (effective from 1 January 2009). The revised standard will prohibit the presentation of items of income and expenses (that is, "non-owner changes in equity") in the statement of changes in equity, requiring "non-owner changes in equity" to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the consolidated income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. The Group will apply HKAS 1 (Revised) from 1 January 2009. It is likely that both the consolidated income statement and statement of comprehensive income will be presented as performance statements.

## 2 Summary of significant accounting policies *(continued)*

### 2.1 Basis of preparation *(continued)*

#### *Standards which are not yet effective (continued)*

- HKAS 27 (Revised), “Consolidated and Separate Financial Statements” (effective from 1 July 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognised in profit or loss. The Group will apply HKAS 27 (Revised) prospectively to transactions with non-controlling interests from 1 January 2010.
- HKAS 32 (Amendment) “Financial Instruments: Presentation”, and HKAS 1 (Amendment), “Presentation of Financial Statements” “Puttable Financial Instruments and Obligations Arising on Liquidation” (effective from 1 January 2009). The amended standards require entities to classify puttable financial instruments and instruments, or components of instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation as equity, provided the financial instruments have particular features and meet specific conditions. The Group will apply the HKAS 32 (Amendment) and HKAS 1 (Amendment) from 1 January 2009, but it is not expected to have any impact on the Group’s financial statements.
- HKFRS 2 (Amendment) “Share-based Payment” (effective from 1 January 2009). The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. As such these features would need to be included in the grant date fair value for transactions with employees and others providing similar services, that is, these features would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group will apply HKFRS 2 (Amendment) from 1 January 2009, but it is not expected to have a material impact on the Group’s financial statements.
- HKFRS 3 (Revised) “Business Combinations” (effective from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the consolidated income statement. There is a choice on an acquisition by acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest’s proportionate share of the acquiree’s net assets. All acquisition-related costs should be expensed. The Group will apply HKFRS 3 (Revised) prospectively to all business combinations from 1 January 2010.



## 2 Summary of significant accounting policies *(continued)*

### 2.1 Basis of preparation *(continued)*

#### *Standards which are not yet effective (continued)*

- HKFRS 8 “Operating Segments” (effective from 1 January 2009) replaces HKAS 14 “Segment Reporting” and aligns segment reporting with the requirements of the US standard SFAS 131 “Disclosures about Segments of an Enterprise and Related Information”. The new standard requires a “management approach”, under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply HKFRS 8 from annual periods beginning 1 January 2009. The expected impact is still being assessed in detail by management, but it appears likely that the number of reportable segments, as well as the manner in which the segments are reported, will be in a manner that is consistent with the internal reporting provided to the chief operating decision maker. As goodwill is allocated to groups of cash-generating units based on segment level, any change will also require management to reallocate goodwill to the newly identified operating segments. Management does not anticipate that this will result in any material impairment to the goodwill balance.
  
- The Hong Kong Institute of Certified Public Accountants’ improvements to HKFRS published in October 2008
  - HKAS 1 (Amendment) “Presentation of Financial Statements” (effective from 1 January 2009). The amendment clarifies that some rather than all financial assets and liabilities classified as held for trading in accordance with HKAS 39, “Financial Instruments: Recognition and Measurement” are examples of current assets and liabilities respectively. The Group will apply the HKAS 1 (Amendment) from 1 January 2009. It is not expected to have an impact on the Group’s financial statements.
  
  - HKAS 19 (Amendment) “Employee Benefits” (effective from 1 January 2009). The distinction between short-term and long-term employee benefits will be based on whether benefits are due to be settled within or after 12 months of employee service being rendered. HKAS 37 “Provisions, Contingent Liabilities and Contingent Assets” requires contingent liabilities to be disclosed, not recognised. HKAS 19 has been amended to be consistent. The Group will apply the HKAS 19 (Amendment) from 1 January 2009.
  
  - HKAS 28 (Amendment) “Investments in Associates” (and consequential amendments to HKAS 32 “Financial Instruments: Presentation” and HKFRS 7 “Financial Instruments: Disclosures”) (effective from 1 January 2009). Where an investment in associate is accounted for in accordance with HKAS 39 “Financial Instruments: Recognition and Measurement” only certain rather than all disclosure requirements in HKAS 28 need to be made in addition to disclosures required by HKAS 32 “Financial Instruments: Presentation” and HKFRS 7 “Financial Instruments: Disclosures”. The Group will apply HKAS 28 (Amendment) from 1 January 2009 and provide the required disclosure where applicable from 1 January 2009.
  
  - HKAS 36 (Amendment) “Impairment of Assets” (effective from 1 January 2009). Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The Group will apply the HKAS 36 (Amendment) and provide the required disclosure where applicable for impairment tests from 1 January 2009.

## 2 Summary of significant accounting policies *(continued)*

### 2.1 Basis of preparation *(continued)*

#### *Standards which are not yet effective (continued)*

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

- HKAS 38 (Amendment) "Intangible Assets" (effective from 1 January 2009). A prepayment may only be recognised in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. The amendment also deletes the wording that states that there is "rarely, if ever" support for use of a method that results in a lower rate of amortisation than the straight-line method. The Group will apply the HKAS 38 (Amendment) from 1 January 2009. It is not expected to have an impact on the Group's financial statements.
- HKAS 39 (Amendment), "Financial Instruments: Recognition and Measurement" (effective from 1 January 2009).

This amendment clarifies that it is possible for there to be movements into and out of the fair value through profit or loss category where a derivative commences or ceases to qualify as a hedging instrument in cash flow or net investment hedge.

The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading is also amended. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit-taking is included in such a portfolio on initial recognition.

The Group will apply the HKAS 39 (Amendment) from 1 January 2009. It is not expected to have an impact on the Group's financial statements.

- There are a number of minor amendments to 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.

## 2 Summary of significant accounting policies *(continued)*

### 2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 December.

#### *(a) Subsidiaries*

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities assumed in a business combination are initially measured at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

Inter-company transactions balances and unrealised gains and losses on transactions between group companies are eliminated.

#### **Reverse acquisition**

In a reverse acquisition, the acquirer is the entity whose equity interests have been acquired and the issuing entity is the acquiree. Although legally the issuing entity is the parent and the entity being acquired is the subsidiary, the legal subsidiary is regarded as the acquirer if it has the power to govern the financial and operating policies of the legal parent so as to obtain benefits from its activities.

The cost of a reverse acquisition is deemed to have been incurred by the legal subsidiary (the acquirer for accounting purposes) in the form of equity instruments issued to the owners of the legal parent (the acquiree for accounting purposes), if any.

## 2 Summary of significant accounting policies *(continued)*

### 2.2 Consolidation *(continued)*

#### *(a) Subsidiaries (continued)*

##### **Reverse acquisition** *(continued)*

Because the consolidated financial statements of the legal parent represent a continuation of the financial statements of the legal subsidiary:

- (i) the assets and liabilities of the legal subsidiary are recognised and measured in the consolidated financial statements at their pre-acquisition carrying amounts;
- (ii) the retained earnings and other equity balances recognised in the consolidated financial statements are the retained earnings and other equity balances of the legal subsidiary immediately before the acquisition;
- (iii) the amount recognised as issued equity instruments in the consolidated financial statements is determined by adding to the issued equity of the legal subsidiary immediately before the acquisition the cost of the acquisition. However, the equity structure appearing in the consolidated financial statements (the number and type of equity instruments issued) reflects the equity structure of the legal parent, including the equity instruments issued by the legal parent to effect the acquisition; and
- (iv) comparative information presented in the consolidated financial statements is that of the legal subsidiary.

In the Company's balance sheet, investments in subsidiaries are stated at cost less any provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

#### *(b) Transactions with minority interests*

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

## 2 Summary of significant accounting policies *(continued)*

### 2.2 Consolidation *(continued)*

#### *(c) Associates*

Associates are entities over which the Group has significant influence but not control.

The Group has invested in certain investment funds that it manages. As an investment manager, the Group may put seed capital in investment funds that it manages in order to facilitate the launch of products. The purpose of seed capital is to ensure that the investment funds can have a reasonable starting fund size to operate and to build track record. The Group may subsequently vary the holding of these seed capital investments depending on the market conditions and various other factors.

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 and the effects in 2008 are to increase retained earnings and decrease other reserves by HK\$86,713,000 and to increase financial assets at fair value through profit or loss (non-current) and decrease available-for-sale financial assets (non-current) by HK\$205,758,000. Included in losses on financial assets at fair value through profit or loss as disclosed in Note 9 below is HK\$116,073,000 which represents the change in fair value of investments in own investment funds during the year.

#### *(d) Joint ventures*

The Group’s interest in jointly controlled entities is accounted for using the equity method of accounting and is initially recognised at cost.

The Group’s share of its joint ventures’ post-acquisition profit or loss is recognised in the consolidated income statement. The cumulative post-acquisition movements are adjusted against the carrying amount of the interest. When the Group’s share of losses in a joint venture equals or exceeds its interest in the joint venture, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture.

### 2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

## 2 Summary of significant accounting policies *(continued)*

### 2.4 Foreign currency translation

(a) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

Translation differences on non-monetary financial assets are reported as part of the fair value gains or losses. Translation differences on non-monetary financial assets such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gains or losses. Translation differences on non-monetary financial assets such as equities classified as available-for-sale financial assets are included in the revaluation reserve in equity.

(c) *Translation from functional currency to presentation currency*

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each consolidated income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rates prevailing at the dates of the transactions); and
- (iii) all resulting exchange differences are recognised as a separate component of equity.

## 2 Summary of significant accounting policies *(continued)*

### 2.5 Property, plant and equipment

Property, plant and equipment, comprising leasehold improvements, furniture and fixtures, office equipment and vehicles, are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is de-recognised. All other repairs and maintenance are charged to the consolidated income statement during the period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost over their estimated useful lives, as follows:

Leasehold improvements	Shorter of three years or lease term
Furniture and fixtures	Five years
Office equipment	Three years
Vehicles	Three years

The assets' useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are recognised in the consolidated income statement.

### 2.6 Intangible assets

#### (a) *Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable net assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisition of a subsidiary is included in intangible assets.

Goodwill is tested for impairment and carried at cost less any accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. For the purpose of impairment testing, goodwill is allocated to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

## 2 Summary of significant accounting policies *(continued)*

### 2.6 Intangible assets *(continued)*

#### *(b) Computer software*

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (five years).

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Computer software development costs recognised as assets are amortised over their estimated useful lives (not exceeding five years).

### 2.7 Impairment of non-financial assets and investments in subsidiaries and joint ventures

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. An impairment loss is recognised for the amount by which an asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each balance sheet date.

### 2.8 Financial assets

The Group classifies its financial assets as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. The classification depends on the purposes for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

#### *(a) Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets held for trading and those being designated in accordance with the scope exclusion within HKAS 28. A financial asset investment is classified as held for trading if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading.

Held for trading financial assets investments are included in current assets. Financial assets at fair value through profit or loss being designated in accordance with the scope exclusion within HKAS 28 are included in non-current assets unless management intends to dispose of the financial assets within 12 months of the balance sheet date.



## 2 Summary of significant accounting policies *(continued)*

### 2.8 Financial assets *(continued)*

#### *(b) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Group's loans and receivables comprise fees receivable, other receivables and cash and cash equivalents.

#### *(c) Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial instruments that are either designated in this category or not classified as financial assets at fair value through profit or loss, loans and receivables and held-to-maturity financial assets. They are included in non-current assets unless management intends to dispose of the investments within 12 months of the balance sheet date.

Regular purchases and sales of financial assets are recognised on the trade-date - the date on which the Group commits to purchase or sell the financial assets. Financial assets at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the consolidated income statement. Available-for-sale financial assets are initially recognised at fair value plus transaction costs. Financial assets are de-recognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss and available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of financial assets at fair value through profit or loss are recognised in the consolidated income statement in the period in which they arise. Changes in the fair value of securities classified as available-for-sale financial assets are recognised in the revaluation reserve in equity.

When securities classified as available-for-sale financial assets are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the consolidated income statement as gains and losses from available-for-sale financial assets.

The fair value of quoted financial assets is based on current bid prices. If the market for a financial asset is not active and for unlisted securities, the Group establishes fair value by using external valuations or valuation techniques. These include the use of quoted bid prices provided by fund administrators and valuations performed by external valuation specialists, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment losses recognised in the consolidated income statement on equity securities classified as available-for-sale financial assets are not reversed through the consolidated income statement.

## 2 Summary of significant accounting policies *(continued)*

### 2.9 Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently measured at their fair value. The derivative financial instruments are designated as non-hedging instruments and are classified as current assets or liabilities. Changes in the fair value of any non-hedging derivative financial instruments are recognised immediately in the consolidated income statement.

### 2.10 Fees receivable

Fees receivable are initially recognised at fair value of the fee income receivable and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. A provision for impairment of fees receivable is established when there is objective evidence that the Group will not be able to collect all amounts due.

### 2.11 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and brokers and other short-term highly liquid investments with original maturities of three months or less.

### 2.12 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or share options are shown in equity as a deduction from the proceeds.

### 2.13 Current and deferred tax

The current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the jurisdictions where the Group and its joint ventures operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax is provided on temporary differences arising on investments in subsidiaries and jointly controlled entities, except where the timing of the reversal of the temporary differences is controlled by the Group and it is probable that the temporary differences will not reverse in the foreseeable future.

## 2 Summary of significant accounting policies *(continued)*

### 2.14 Income recognition

Revenue comprises the fair value of the consideration received or receivable for the provision of services in the ordinary course of the Group's activities.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the provision of services have been resolved. Revenue is recognised as follows:

(a) *Fees from investment management activities*

Management fees are recognised on a time-proportion basis with reference to the net asset value of the investment funds and managed accounts.

Performance fees are recognised on the performance fee valuation day of the investment funds and managed accounts when there is a positive performance for the relevant performance period, taking into consideration the relevant basis of calculation for the investment funds and managed accounts.

(b) *Fees from fund distribution activities*

Front-end fees are recognised on a straight-line basis over the estimated holding periods of the investors in the investment funds. Any unrecognised amounts are treated as deferred income.

Back-end fees are recognised upon redemption by the investors in the investment funds.

(c) *Interest income*

Interest income is recognised on a time-proportion basis using the effective interest method.

(d) *Dividend income*

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

### 2.15 Distribution fees and distribution fees payable

Distribution fees represent rebates of management fee, performance fee and front-end fee income by the Group to the distributors for selling its products. Distribution fees are recognised when the corresponding management fees, performance fees and front-end fees are earned by the Group and the Group is obliged to pay the rebates.

Distribution fees payable are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

## 2 Summary of significant accounting policies *(continued)*

### 2.16 Compensation and benefits

(a) *Bonus*

The Group recognises a liability and an expense for bonus on a basis that takes into consideration the profit attributable to equity holders of the Company, after certain adjustments. The Group recognises a liability where contractually obliged or where there is a past practice that has created a constructive obligation.

(b) *Pension obligations*

The Group participates in a mandatory provident fund scheme in Hong Kong which is a defined contribution plan generally funded through payments to trustee-administered funds. The Group pays contributions to the mandatory provident fund scheme on a mandatory basis. The Group has no legal or constructive obligations to pay further contributions if the mandatory provident fund scheme does not hold sufficient assets to pay all employees the benefits relating to employee services in the current and prior periods. The contributions are recognised as compensation and benefit expenses when they are due.

(c) *Share-based compensation*

The Group operates an equity-settled, share-based compensation plan and has other equity-settled, share-based compensation arrangements. The fair value of the employee services received in exchange for the grant of the share options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the share options granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of share options that are expected to vest. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At each balance sheet date, the entity revises its estimates of the number of share options that are expected to vest based on the non-marketing vesting condition. It recognises the impact of the revision of original estimates, if any, in the consolidated income statement, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

(d) *Termination benefits*

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits.

(e) *Other employee benefits*

Short-term employee benefit costs are charged in the period to which the employee services relate.

Employee entitlements to annual leave and long-service leave are recognised when they accrue to employees. An accrual is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date.

## 2 Summary of significant accounting policies *(continued)*

### 2.17 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated income statement on a straight-line basis over the period of the lease.

### 2.18 Advisory fees

Advisory fees comprise fees paid and payable to the advisors for the provision of advisory services in relation to fund investment policies and strategies. Advisory fees are recognised when the advisory services are received by the Group.

### 2.19 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, as appropriate.

### 2.20 Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. A contingent asset is not recognised but is disclosed in the notes to the consolidated financial statements, where necessary, when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

### 2.21 Comparative figures

Certain comparative amounts have been reclassified to conform to the current year's presentation. None of these has any impact on the profit after tax and net assets of the Group for the year ended 31 December 2007.

### 3 Financial risk management

#### 3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall financial risk management programme focuses on the analysis, evaluation and management of financial risks and seeks to minimise potential adverse effects on the Group's financial performance.

The Group manages its financial risks through the Finance team and the Internal Audit and Risk Control team who oversee the key financial risks and the risk management processes within the Group.

##### (a) *Foreign exchange risk*

The Group has transactions with counterparties in different locations and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the United States dollar. Foreign exchange risk arises when future transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency.

The Group does not have significant foreign exchange risk because the majority of the assets and liabilities are denominated in the Hong Kong dollar (the Company's functional and presentation currency) and the United States dollar which is currently linked to the Hong Kong dollar.

As the directors believe that the Group has no significant foreign exchange risk exposure, no foreign exchange sensitivity analysis is disclosed.

Refer to Notes 18, 19, 20 and 24 below for additional disclosures on foreign exchange risk.

##### (b) *Interest rate risk*

As the Group has no significant interest-bearing liabilities, the Group's expenses and financing cash flows are substantially independent of changes in market interest rates.

The Group is exposed to cash flow interest rate risk in respect of bank deposits and deposits with brokers which are interest-bearing at variable rates. All bank deposits are short-term deposits with maturities less than one year.

At 31 December 2008, if interest rates had been 50 basis points (2007: 50 basis points) (these represent a reasonable possible shift in the interest rates, having regard to the historical volatility of the interest rates) higher or lower with all other variables held constant, profit after tax and equity would have been HK\$781,000 (2007: HK\$3,647,000) higher or lower, as a result of higher or lower interest income on the bank deposits.

The Finance team monitors the overall interest rate risk on a group basis at least every month.

### 3 Financial risk management *(continued)*

#### 3.1 Financial risk factors *(continued)*

(c) *Price risk*

The Group is exposed to securities price risk in respect of investments held by the Group. The majority of the Group's investments are investments in its own investment funds (i.e. seed capital) and the rest are other investments in listed and unlisted equity securities and investment funds. As an investment manager, the Group may put seed capital in investment funds that it manages in order to facilitate the launch of products. The purpose of seed capital is to ensure that the investment funds can have a reasonable starting fund size to operate and to build track record. The Group may subsequently vary the holding of these seed capital investments depending on the market conditions and various other factors. The Finance team monitors the overall price risk on a group basis at least every month.

The table below summarises the impact of increases or decreases in the markets in which the Group's investments in equity securities and investment funds operate. Unlisted equity securities are excluded due to their illiquidity. For the purpose of measuring sensitivity of the Group's investments against markets, the Group uses the correlation between the price movements of the MSCI China Index and the Group's investments because the Group's investments mainly focus on the Greater China equities market and the directors consider that the MSCI China Index is a well-known index representing the universe of opportunities for investments in the Greater China equities market available to non-domestic investors.

The analysis is based on the assumption that the index had increased or decreased by the stated percentages (these represent a reasonable possible shift in the index, having regard to the historical volatility of the index), with all other variables held constant and the Group's investments moved according to the historical correlation with the index.

	Change		Profit after tax		Equity	
	2008	2007	2008	2007	2008	2007
			HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>The Group</b>						
MSCI China Index	+/-30%	+/-10%	+/-21,645	+/-415	+/-21,645	+/-10,103

Profit after tax would increase or decrease as a result of gains or losses on investments classified as financial assets at fair value through profit or loss. Other components of equity would increase or decrease as a result of gains or losses on investments classified as available-for-sale financial assets. Impacts on equity include impacts on profit after tax and other components of equity.

Refer to Note 18 below for additional disclosures on price risk.

In addition to securities price risk in respect of investments held by the Group, the Group is exposed to price risk indirectly in respect of management fee and performance fee income which are determined with reference to the net asset value and performance of the investment funds and managed accounts respectively.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

### 3 Financial risk management (continued)

#### 3.1 Financial risk factors (continued)

##### (d) Credit risk

Credit risk arises from cash and cash equivalents and related interest receivable. Credit risk also arises from credit exposures with respect to the investment funds and managed accounts on the outstanding fees receivable. The Group earns fees on investment management activities and fund distribution activities from the investment funds and managed accounts.

Credit risk is managed on a group basis. The Finance team and the Internal Audit and Risk Control team assess the credit quality of the counterparty, taking into account its financial position, past experience and other factors.

The table below shows the balance of the 10 major counterparties:

	2008 HK\$'000	2007 HK\$'000
<b>The Group</b>		
<b>With independent credit rating</b>		
<i>Cash and cash equivalents and related interest receivable</i>		
AA-	105,493	322,442
A	69,369	242,651
A-	387,328	160,619
	<u>562,190</u>	<u>725,712</u>
<b>Without independent credit rating</b>		
<i>Fees receivable</i>		
Investment fund 1	3,821	227,474
Investment fund 2	3,771	—
Investment fund 3	3,409	496,320
Investment fund 4	3,202	—
Investment fund 5	2,337	—
Investment fund 6	—	188,486
Investment fund 7	—	184,073
Investment fund 8	—	123,236
Investment fund 9	—	143,545
Investment fund 10	—	115,041
Managed account 1	2,890	—
	<u>19,430</u>	<u>1,478,175</u>
	<u>581,620</u>	<u>2,203,887</u>
<b>The Company</b>		
<b>With independent credit rating</b>		
<i>Cash and cash equivalents</i>		
AA-	2,749	2,374
A-	65,973	—
	<u>68,722</u>	<u>2,374</u>

The reference independent credit rating used is Standard & Poor's long-term local issuer credit rating. The Director do not expect any losses from non-performance by these counterparties.

Refer to Note 19 below for additional disclosures on credit risk.



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

### 3 Financial risk management (continued)

#### 3.1 Financial risk factors (continued)

##### (e) Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash and cash equivalents and the ability to close out market positions. The Group manages liquidity risk by maintaining a sufficient amount of short-term bank deposits to ensure daily operational requirements are fulfilled.

The table below analyses the Group's and the Company's financial liabilities into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying amounts, as the impact of discounting is not significant.

	Not later than one month HK\$'000	Later than one month and not later than six months HK\$'000	No stated maturity HK\$'000
<b>The Group</b>			
<b>At 31 December 2008</b>			
Accrued bonus	7,982	—	—
Distribution fees payable	9,706	—	—
Other payables and accrued expenses	7,465	—	1,211
<b>At 31 December 2007</b>			
Accrued bonus	537,552	—	—
Distribution fees payable	151,667	—	—
Other payables and accrued expenses	24,837	20,450	—
Dividends payable	660,000	—	—
<b>The Company</b>			
<b>At 31 December 2008</b>			
Other payables and accrued expenses	295	—	—
Amounts due to a subsidiary	—	—	48,740
<b>At 31 December 2007</b>			
Amounts due to a subsidiary	—	—	48,490

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

### 3 Financial risk management *(continued)*

#### 3.2 Capital risk management

The Group's objectives in managing capital are to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce liabilities. The Group monitors capital on the basis of total equity as shown in the consolidated balance sheet. The Group's strategy is to maintain a solid capital base to support the operations and development of its business in the long term.

In addition, at 31 December 2008, Sensible Asset Management Hong Kong Limited, Sensible Asset Management Limited, Value Partners Hong Kong Limited, Value Partners Limited and Value Partners Private Equity Limited, wholly-owned subsidiaries of the Group, are licensed to carry out regulated activities under the Hong Kong Securities and Futures Ordinance as follows:

Sensible Asset Management Hong Kong Limited (a)	Types 4 and 9
Sensible Asset Management Limited (a)	Types 4 and 9
Value Partners Hong Kong Limited	Types 1, 4, 5 and 9
Value Partners Limited	Types 1, 4, 5 and 9
Value Partners Private Equity Limited (a)	Types 4 and 9

(a) The regulated entities are subject to specified licensing conditions.

The types of regulated activities are as follows:

Type 1	Dealing in securities
Type 4	Advising on securities
Type 5	Advising on futures contracts
Type 9	Asset management

As a result, they are subject to capital requirements and file financial returns with the Securities and Futures Commission as follows:

Sensible Asset Management Hong Kong Limited	Half-yearly
Sensible Asset Management Limited	Half-yearly
Value Partners Hong Kong Limited	Monthly
Value Partners Limited	Monthly
Value Partners Private Equity Limited	Half-yearly

The Finance team monitors the paid-up share capital and liquid capital of the regulated entities within the Group for the fulfilment of capital requirements under the Hong Kong Securities and Futures Ordinance.

### 3 Financial risk management *(continued)*

#### 3.3 Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial instruments held by the Group is the current bid price. The fair value of financial instruments that are not traded in an active market is determined by using external valuations or valuation techniques. The Group uses a variety of methods and makes assumptions that are mainly based on market conditions existing at each balance sheet date. Quoted bid prices provided by fund administrators are used for unlisted investment funds. Other techniques, such as valuations performed by external valuation specialists, recent arm's length transactions or reference to other instruments that are substantially the same, as appropriate, are used to determine fair value for the remaining financial instruments.

### 4 Critical accounting estimates and judgements

#### Fair value estimation of financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using external valuations or valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at each balance sheet date. The resulting accounting estimates may not equal to the related actual results.

#### Fair value estimation of share options

The Group determines the fair value of its share options using the Black-Scholes valuation model which requires input of highly subjective assumptions as disclosed in Note 21 below. Any change in the subjective input assumptions may materially affect the estimation of the fair value of an option.

### 5 Segment information

#### Primary reporting format — business segments/secondary reporting format — geographical segments

At 31 December 2008, the Group was organised into one main business segment which operated also in one main geographical area: investment management in the Greater China region.

No additional disclosure is included in relation to segment information, as the Group's activities were limited to one main business and geographical segment.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

### 6 Income

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

	2008 HK\$'000	2007 HK\$'000
<b>Revenue</b>		
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
<b>Total revenue</b>	<b>421,860</b>	<b>2,540,757</b>
<b>Other income</b>		
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
<b>Total other income</b>	<b>37,523</b>	<b>71,261</b>
<b>Total income</b>	<b>459,383</b>	<b>2,612,018</b>

The investment income from listed and unlisted investments for the year ended 31 December 2008 amounted to HK\$670,000 (2007: HK\$2,664,000) and HK\$17,082,000 (2007: HK\$38,876,000) respectively.

### 7 Compensation and benefit expenses

	2008 HK\$'000	2007 HK\$'000
Bonus	7,982	549,815
Salaries, wages and other benefits	62,376	63,607
Share-based compensation (Note 21)	127,190	574
Termination benefits	513	—
Pension costs — mandatory provident fund scheme	1,054	837
<b>Total compensation and benefit expenses</b>	<b>199,115</b>	<b>614,833</b>

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

### 7 Compensation and benefit expenses (continued)

#### 7.1 Pension costs — mandatory provident fund scheme

There were no forfeited contributions utilised during the year ended 31 December 2008 (2007: Nil) and at 31 December 2008 (2007: Nil) to reduce future contributions.

At 31 December 2008, no contributions were payable to the mandatory provident fund scheme (2007: HK\$165,000).

#### 7.2 Directors' emoluments

The remuneration of every director of the Company is as follows:

	Bonus HK\$'000	Salaries and other benefits (a) HK\$'000	Share-based compensation HK\$'000	Pension costs HK\$'000	Total HK\$'000
<b>Year ended 31 December 2008</b>					
<i>Executive directors</i>					
Ms CHAU, Yee Man (b)	611	1,071	1,177	12	2,871
Mr CHEAH, Cheng Hye	3,311	6,044	96,062	12	105,429
Mr CHOI, Nga Chung (c)	—	1,158	3,390	11	4,559
Mr HO, Man Kei	611	1,153	3,390	12	5,166
Ms HUNG, Yeuk Yan Renee	611	1,094	2,373	12	4,090
Mr LAW, Ka Kin	210	1,680	1,411	12	3,313
Mr NGAN, Wai Wah	695	1,732	5,094	12	7,533
Mr SO, Chun Ki Louis	611	1,067	2,373	12	4,063
<i>Non-executive director</i>					
Mr CHOI, Nga Chung (c)	—	7	—	—	7
<i>Independent non-executive directors</i>					
Dr CHEN, Shih Ta Michael	—	250	211	—	461
Mr LEE, Siang Chin	—	250	211	—	461
Mr OYAMA, Nobuo	—	250	211	—	461
	<b>6,660</b>	<b>15,756</b>	<b>115,903</b>	<b>95</b>	<b>138,414</b>
<b>Year ended 31 December 2007</b>					
<i>Executive directors</i>					
Mr CHEAH, Cheng Hye	234,357	19,223	—	12	253,592
Mr CHOI, Nga Chung	41,185	1,234	—	12	42,431
Mr HO, Man Kei	41,193	1,849	—	12	43,054
Ms HUNG, Yeuk Yan Renee	41,147	1,373	—	12	42,532
Mr LAW, Ka Kin	6,200	1,560	574	12	8,346
Mr NGAN, Wai Wah	43,459	2,847	—	12	46,318
Mr SO, Chun Ki Louis	41,142	1,214	—	12	42,368
<i>Independent non-executive directors</i>					
Dr CHEN, Shih Ta Michael	—	27	—	—	27
Mr LEE, Siang Chin	—	27	—	—	27
Mr OYAMA, Nobuo	—	27	—	—	27
	<b>448,683</b>	<b>29,381</b>	<b>574</b>	<b>84</b>	<b>478,722</b>

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

### 7 Compensation and benefit expenses *(continued)*

#### 7.2 Directors' emoluments *(continued)*

- (a) Other benefits include rebates of management fees and performance fees by the Group in relation to the directors' investments in the investment funds under the Group's management. Rebates of management fees and performance fees for the year ended 31 December 2008 amounted to HK\$1,333,000 (2007: HK\$14,332,000).
- (b) Ms Chau Yee Man became an executive director of the Company with effect from 29 August 2008.
- (c) Mr CHOI Nga Chung has been re-designated from an executive director of the Company to a non-executive director of the Company with effect from 14 November 2008. Mr CHOI Nga Chung has subsequently resigned as a non-executive director of the Company with effect from 22 January 2009.

The table below summarises the emoluments waived by the directors.

	2008 HK\$'000	2007 HK\$'000
Ms CHAU, Yee Man	211	—
Mr CHEAH, Cheng Hye	973	—
Mr HO, Man Kei	211	—
Ms HUNG, Yeuk Yan Renee	211	—
Mr NGAN, Wai Wah	334	—
Mr SO, Chun Ki Louis	211	—

None of the directors received or will receive any fees, inducement fees or compensation for loss of office as director during the year ended 31 December 2008 (2007: Nil).

#### 7.3 Five highest paid individuals

The five individuals whose emoluments were the highest in the Group are also directors whose emoluments are reflected in the analysis presented above.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

### 8 Other expenses

	2008 HK\$'000	2007 HK\$'000
Legal and professional fees	5,233	4,440
Research expenses	5,105	3,316
Depreciation and amortisation (Note 15 and 16)	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
<b>Total other expenses</b>	<b>38,665</b>	<b>85,379</b>

### 9 Other (losses)/gains — net

	2008 HK\$'000	2007 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	(123,180)	(25,323)
Net foreign exchange gains/(losses)	4,602	(5)
Cash gift (Note 30.5)	54,600	—
<b>Total other (losses)/gains — net</b>	<b>(58,161)</b>	<b>20,088</b>

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

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

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

	2008 HK\$'000	2007 HK\$'000
<b>Profit before tax</b>	<u>92,506</u>	<u>1,655,146</u>
Tax calculated at domestic tax rates applicable to profits in the respective countries of 16.5% (2007: 17.5%)	15,263	289,651
Tax effects of:		
Income not subject to tax	(13,192)	(59,779)
Expenses not deductible for tax purposes	25,825	29,697
Tax losses for which no deferred tax asset was recognised	—	404
Remeasurement of deferred tax — change in Hong Kong tax rate	(18)	—
Adjustments in respect of prior years	(1,970)	(24,355)
<b>Tax expense</b>	<u>25,908</u>	<u>235,618</u>



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

### 11 Profit attributable to equity holders of the Company

The profit attributable to equity holders of the Company for the year ended 31 December 2008 was dealt with in the financial statements of the Company to the extent of HK\$589,631,000 (2007: HK\$1,586,000).

### 12 Earnings per share

#### 12.1 Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue 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 21 below have been outstanding throughout the year.

	2008	2007
Profit attributable to equity holders of the Company (HK\$'000)	66,598	1,419,528
Weighted average number of ordinary shares in issue (thousands)	1,600,000	1,600,000
Basic earnings per share (HK cent per share)	4.2	88.7

#### 12.2 Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares which is the share options. For share options, a calculation is made in order to determine the number of ordinary shares that could have been acquired at fair value (determined as the average closing market price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of ordinary shares calculated as above is compared with the number of ordinary shares that would have been issued assuming the exercise of the share options.

	2008	2007
Profit attributable to equity holders of the Company (HK\$'000)	66,598	1,419,528
Weighted average number of ordinary shares in issue (thousands)	1,600,000	1,600,000
Adjustments for share options (thousands)	—	3
Weighted average number of ordinary shares for diluted earnings per share (thousands)	1,600,000	1,600,003
Diluted earnings per share (HK cent per share)	4.2	88.7

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

### 13 Dividends

	Note	2008 HK\$'000	2007 HK\$'000
<b>Dividends by the Company</b>			
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
		<u>88,000</u>	<u>568,000</u>
<b>Dividends by Value Partners Limited</b>			
Special dividend to the then shareholders of HK\$Nil (2007: HK\$43.129) per ordinary share	(b)	—	660,000
<b>Total dividends</b>		<u>88,000</u>	<u>1,228,000</u>

- (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.

### 14 Investments in subsidiaries — the Company

	2008 HK\$'000	2007 HK\$'000
Unlisted shares, at cost	970,517	968,659
Impairment losses	(6,753)	—
	<u>963,764</u>	<u>968,659</u>

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

### 14 Investments in subsidiaries — the Company (continued)

At 31 December 2008, the Company had direct interests in the following principal subsidiaries:

Name	Place of incorporation	Principal activities and place of operation	Issued share capital	Interest held
Sensible Asset Management Hong Kong Limited	Hong Kong	Investment management in Hong Kong	1,000,000 ordinary shares of HK\$1 each	100%
Sensible Asset Management Limited	British Virgin Islands	Investment management in Hong Kong	2,000,000 ordinary shares of US\$0.1 each	100%
Value Funds Limited	Hong Kong	Investment holding	1 ordinary share of HK\$1	100%
Value Partners (Cayman GP) Limited	Cayman Islands	Inactive	1 ordinary share of US\$1	100%
Value Partners (Cayman GP) II Ltd	Cayman Islands	Managing member of three investment funds managed by Value Partners Limited/ Value Partners Hong Kong Limited	1 ordinary share of US\$1	100%
Value Partners Hong Kong Limited	Hong Kong	Investment management in Hong Kong	5,000,000 ordinary shares of HK\$1 each	100%
Value Partners Investment Services Pte Ltd	Singapore	Sales and marketing activities in Singapore	150,000 ordinary shares of S\$1 each	100%
Value Partners Limited	British Virgin Islands	Investment management, investment holding and securities dealing in Hong Kong	11,409,459 Class A ordinary shares and 3,893,318 Class B ordinary shares of US\$0.1 each	100%
Value Partners Private Equity Limited (formerly VP Private Equity Limited before 26 February 2007)	British Virgin Islands	Investment management and provision of research and investment advisory services in Hong Kong	7,000,000 ordinary shares of US\$0.1 each	100%
Valuegate Holdings Limited	British Virgin Islands	Trademark holding in Hong Kong	2 ordinary shares of US\$1 each	100%

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## Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

### 14 Investments in subsidiaries — the Company *(continued)*

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 as disclosed in Note 21 below.

On 29 October 2007, the Company acquired from Value Partners Limited the entire issued share capital of all the then subsidiaries of Value Partners Limited for a cash consideration of HK\$48,078,000 and thereafter became the immediate and ultimate holding company of the subsidiaries now comprising the Group. The subsidiaries acquired from Value Partners Limited are under common control and are as follows:

- Hongkong Fund Management Limited
- Hongkong Investment Management Limited
- Middle Star Capital Limited
- Sensible Asset Management Limited
- Value Funds Limited
- Value Partners (Cayman GP) Limited
- Value Partners (Cayman GP) II Ltd
- Value Partners Hong Kong Limited
- Value Partners Private Equity Limited
- Valuegate Holdings Limited

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

### 15 Property, plant and equipment — the Group

	Leasehold improvements HK\$'000	Furniture and fixtures HK\$'000	Office equipment HK\$'000	Vehicles HK\$'000	Total HK\$'000
<b>At 1 January 2007</b>					
Cost	5,213	2,469	3,192	1,100	11,974
Accumulated depreciation	(515)	(846)	(1,630)	(612)	(3,603)
<b>Net book amount</b>	<b>4,698</b>	<b>1,623</b>	<b>1,562</b>	<b>488</b>	<b>8,371</b>
<b>Year ended 31 December 2007</b>					
Opening net book amount	4,698	1,623	1,562	488	8,371
Additions	401	389	771	—	1,561
Depreciation (Note 8)	(1,961)	(407)	(825)	(367)	(3,560)
<b>Closing net book amount</b>	<b>3,138</b>	<b>1,605</b>	<b>1,508</b>	<b>121</b>	<b>6,372</b>
<b>At 31 December 2007</b>					
Cost	5,614	2,858	3,761	1,100	13,333
Accumulated depreciation	(2,476)	(1,253)	(2,253)	(979)	(6,961)
<b>Net book amount</b>	<b>3,138</b>	<b>1,605</b>	<b>1,508</b>	<b>121</b>	<b>6,372</b>
<b>Year ended 31 December 2008</b>					
Opening net book amount	3,138	1,605	1,508	121	6,372
Additions	1,048	77	933	—	2,058
Disposals	—	—	(27)	—	(27)
Other adjustment	—	—	53	—	53
Depreciation (Note 8)	(2,713)	(460)	(997)	(121)	(4,291)
<b>Closing net book amount</b>	<b>1,473</b>	<b>1,222</b>	<b>1,470</b>	<b>—</b>	<b>4,165</b>
<b>At 31 December 2008</b>					
Cost	6,662	2,935	4,720	1,100	15,417
Accumulated depreciation	(5,189)	(1,713)	(3,250)	(1,100)	(11,252)
<b>Net book amount</b>	<b>1,473</b>	<b>1,222</b>	<b>1,470</b>	<b>—</b>	<b>4,165</b>

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

### 16 Intangible assets — the Group

	Goodwill HK\$'000	Computer software HK\$'000	Total HK\$'000
<b>At 1 January 2007</b>			
Cost	393	2,634	3,027
Accumulated amortisation	—	(1,238)	(1,238)
<b>Net book amount</b>	<b>393</b>	<b>1,396</b>	<b>1,789</b>
<b>Year ended 31 December 2007</b>			
Opening net book amount	393	1,396	1,789
Additions	—	748	748
Amortisation (Note 8)	—	(503)	(503)
<b>Closing net book amount</b>	<b>393</b>	<b>1,641</b>	<b>2,034</b>
<b>At 31 December 2007</b>			
Cost	393	3,382	3,775
Accumulated amortisation	—	(1,741)	(1,741)
<b>Net book amount</b>	<b>393</b>	<b>1,641</b>	<b>2,034</b>
<b>Year ended 31 December 2008</b>			
Opening net book amount	393	1,641	2,034
Additions	—	213	213
Disposals	—	(5)	(5)
Other adjustment	—	(54)	(54)
Amortisation (Note 8)	—	(553)	(553)
<b>Closing net book amount</b>	<b>393</b>	<b>1,242</b>	<b>1,635</b>
<b>At 31 December 2008</b>			
Cost	393	3,536	3,929
Accumulated amortisation	—	(2,294)	(2,294)
<b>Net book amount</b>	<b>393</b>	<b>1,242</b>	<b>1,635</b>

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

### 17 Interest in joint ventures — the Group

	2008 HK\$'000	2007 HK\$'000
<b>Beginning of the year</b>	—	3,357
Share of results		
— loss before tax	—	(203)
Application of excess losses shared to receivables from joint ventures	—	203
Disposals	—	(3,357)
<b>End of the year</b>	<b>—</b>	<b>—</b>

The receivables from joint ventures are unsecured, non-interest bearing and have no fixed repayment terms.

Details of the joint venture of the Group which was directly held are as follows:

Name	Place of incorporation	Principal activities	Percentage of interest in ownership and profit sharing before disposal	
			2008	2007
Development Partners Limited	Hong Kong	Investment holding	—	60%

Details of the joint ventures of the Group which were indirectly held are as follows:

Name	Place of incorporation	Principal activities	Percentage of effective interest in ownership and profit sharing before disposal	
			2008	2007
Development Partners (Cayman) Limited	Cayman Islands	Investment management	—	50.6%
Development Partners (Hong Kong) Limited	Hong Kong	Provision of investment advisory services	—	60%

On 26 October 2007, the Group disposed of its interest in Development Partners Limited, the Group's then joint venture directly held by China Development Principles Group Limited, the Group's then wholly-owned subsidiary, and two subsidiaries of Development Partners Limited, Development Partners (Cayman) Limited and Development Partners (Hong Kong) Limited, through the sale of the entire issued share capital of China Development Principles Group Limited for an immediate cash receipt of US\$2,500 and other considerations determined by reference to the following:

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

### 17 Interest in joint ventures — the Group *(continued)*

- (a) the fees that Development Partners (Cayman) Limited receives from the investment fund under its management, after certain pre-agreed expenses;
- (b) the performance fee that Development Partners (Cayman) Limited receives from the same investment fund mentioned above when it is liquidated at the end of its term, after agreed costs and management bonus; and
- (c) the carried interest or similar performance fee any fund manager controlled by the purchasers may receive from new investment funds that they may launch in the future and which is attributable to up to a certain amount of committed capital in such new investment funds.

Refer to Note 31 below for additional receipts from the sale after the balance sheet date.

The Group's share of assets, liabilities, results and commitments of the joint ventures are summarised below:

	2008 HK\$'000	2007 HK\$'000
Assets	—	—
Liabilities	—	—
Net assets	—	—
Income	—	4,309
Expenses	—	(4,512)
Loss before tax	—	(203)
Commitments	—	—



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

### 18 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
<b>Listed securities (by place of listing)</b>						
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
<b>Market value of listed securities</b>	<b>3,483</b>	<b>9,076</b>	<b>—</b>	<b>1,882</b>	<b>3,483</b>	<b>10,958</b>
<b>Unlisted securities (by place of incorporation/establishment)</b>						
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
<b>Total investments</b>	<b>140,233</b>	<b>9,076</b>	<b>14,120</b>	<b>228,064</b>	<b>154,353</b>	<b>237,140</b>
Representing:						
Non-current	136,750	—	10,007	228,064	146,757	228,064
Current	3,483	9,076	4,113	—	7,596	9,076
<b>Total investments</b>	<b>140,233</b>	<b>9,076</b>	<b>14,120</b>	<b>228,064</b>	<b>154,353</b>	<b>237,140</b>

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

### 18 Investments — the Group (continued)

The movement of available-for-sale financial assets is as follows:

	2008 HK\$'000	2007 HK\$'000
Beginning of the year	228,064	120,858
Other adjustment (Note 2.2(c))	(205,758)	—
Additions	5,856	86,599
Disposals	(1,107)	(3,381)
Revaluation (losses)/gains transferred (from)/to equity	(12,935)	23,988
<b>End of the year</b>	<b>14,120</b>	<b>228,064</b>

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

Investments are denominated in the following currencies:

	2008 HK\$'000	2007 HK\$'000
Hong Kong dollar	7,139	19,546
Singapore dollar	4,703	10,404
United States dollar	142,511	207,190
<b>Total investments</b>	<b>154,353</b>	<b>237,140</b>

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

### 19 Fees receivable — the Group

The carrying amounts of fees receivable approximate their fair value due to the short-term maturity. The maximum exposure to credit risk at the balance sheet date is the fair value of the fees receivable. The Group did not hold any collateral as security at 31 December 2008 (2007: Nil).

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 HK\$'000	2007 HK\$'000
<b>Fees receivable that were past due but not impaired</b>		
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
	<u>29,276</u>	<u>1,641,191</u>
Fees receivable that were within credit period	4,083	55,412
	<u>33,359</u>	<u>1,696,603</u>
<b>Total fees receivable</b>	<b>33,359</b>	<b>1,696,603</b>

Fees receivable are denominated in the following currencies:

	2008 HK\$'000	2007 HK\$'000
Hong Kong dollar	4,821	79,713
Renminbi	—	5,957
United States dollar	<u>28,538</u>	<u>1,610,933</u>
	<u>33,359</u>	<u>1,696,603</u>
<b>Total fees receivable</b>	<b>33,359</b>	<b>1,696,603</b>

Fees receivable from investment management activities are generally deducted from the net asset value of the investment funds and managed accounts and paid directly by the administrator or custodian of the investment funds and managed accounts at the end of the relevant valuation period or credit period, as appropriate.

There was no impairment provision on fees receivable at 31 December 2008 (2007: Nil).

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

### 20 Cash and cash equivalents

	2008 HK\$'000	2007 HK\$'000
<b>The Group</b>		
Cash at bank and in hand	175,331	390,861
Short-term bank deposits	385,835	338,505
Deposits with brokers	999	15,722
<b>Total cash and cash equivalents</b>	<b>562,165</b>	<b>745,088</b>
<b>The Company</b>		
Cash at bank and in hand	2,749	2,374
Short-term bank deposits	65,973	—
<b>Total cash and cash equivalents</b>	<b>68,722</b>	<b>2,374</b>

Cash and cash equivalents are denominated in the following currencies:

	2008 HK\$'000	2007 HK\$'000
<b>The Group</b>		
Hong Kong dollar	301,048	587,628
Japanese yen	891	305
Malaysian ringgit	—	1,227
Singapore dollar	5,061	2,107
United States dollar	255,153	153,794
Other currencies	12	27
<b>Total cash and cash equivalents</b>	<b>562,165</b>	<b>745,088</b>
<b>The Company</b>		
Hong Kong dollar	2,672	2,374
United States dollar	66,050	—
<b>Total cash and cash equivalents</b>	<b>68,722</b>	<b>2,374</b>

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

### 21 Share capital and share premium

	Share capital HK\$'000	Share premium HK\$'000	Total HK\$'000
<b>The Group</b>			
At 1 January 2007, and 31 December 2007 and 2008	<u>11,855</u>	<u>41,912</u>	<u>53,767</u>
<b>The Company</b>			
At 1 January 2007	—	—	—
Issue of shares	<u>160,000</u>	<u>760,581</u>	<u>920,581</u>
At 31 December 2007 and 2008	<u>160,000</u>	<u>760,581</u>	<u>920,581</u>

#### Equity structure — the Company

	Number of shares
At 1 January 2007	1
Issue of shares	<u>1,599,999,999</u>
At 31 December 2007 and 2008	<u>1,600,000,000</u>

At 31 December 2008, the total authorised number of ordinary shares was 5,000,000,000 shares (2007: 5,000,000,000 shares) with a par value of HK\$0.1 (2007: HK\$0.1) per share and all issued shares were fully paid.

On 24 October 2007, the authorised share capital was increased to 5,000,000,000 by the creation of 4,996,200,000 ordinary shares with a par value of HK\$0.1 per share.

On 26 October 2007, 1,599,999,999 ordinary shares with a par value of HK\$0.1 per share were issued for a total consideration of HK\$920,581,000 to the then shareholders of Value Partners Limited, a wholly-owned subsidiary of the Group which was the then immediate holding company of all the other subsidiaries of the Group, in exchange for all their interests in Value Partners Limited. These shares rank pari passu with the existing shares.

On 22 November 2007, 381,600,000 ordinary shares with a par value of HK\$0.1 per share were listed on the Hong Kong Stock Exchange through a global offering. The global offering included the offer and sale of shares by two of the then shareholders of the Company through a public offering in Hong Kong and an international offering at a consideration of HK\$7.63 per share. The Company did not issue any new shares in the global offering and did not receive any proceeds from it. The selling shareholders received all of the net proceeds from the global offering.

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## Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

### 21 Share capital and share premium *(continued)*

On 30 November 2007, additional 30,400,000 ordinary shares with a par value of HK\$0.1 per share were listed on the Hong Kong Stock Exchange through the exercise of the over-allocation option in full by the joint global coordinators on behalf of the international underwriters to cover over-allocations in the international offering. These shares were sold by the same shareholders of the Company mentioned above at a consideration of HK\$7.63 per share. The Company did not receive any proceeds from the exercise of the over-allocation option. The selling shareholders received all of the net proceeds from it.

The ordinary shares are non-redeemable and are entitled to dividends. Each ordinary share carries one vote. In the case of winding up of the Company, ordinary shares carry the right to return the paid-up capital and any balance then remaining.

#### Share options

The Group operates a share option scheme for directors, employees and others whom the Board of Directors considers, in its sole discretion, have contributed or will contribute to the Group. The share option scheme is effective for a period of ten years from the date it was adopted, after which no new share option will be granted but the provisions of the scheme will remain in full force and effect in all other respects. The share options are subject to terms as the Board of Directors may determine. Such terms may include the exercise price of the share options, the minimum period for which the share options must be held before they can be exercised in whole or in part, the conditions that must be reached before the share options can be exercised. The Group has no legal or constructive obligation to repurchase or settle the share options in cash. 120,000,000 options were granted under the share option scheme during the year ended 31 December 2008 (2007: Nil).

Apart from the share option scheme, share options were also granted to a director of the Company for a cash consideration of HK\$1 pursuant to an option agreement dated 29 October 2007. The exercise price of the granted share options is HK\$7.63. The share options are exercisable starting six months after the date on which the shares of the Company first become listed on the Hong Kong Stock Exchange. The share options have a contractual option term of six months. The Group has no legal or constructive obligation to repurchase or settle the share options in cash.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

### 21 Share capital and share premium (continued)

Movements in the number of share options outstanding and their related exercise prices are as follows:

	Average exercise price (HK\$ per share)	Number of options ('000)
At 1 January 2007	—	—
Granted	7.63	525
At 31 December 2007	7.63	525
At 1 January 2008	7.63	525
Granted	5.56	120,000
Forfeited	5.50	(7,602)
Expired	7.63	(525)
At 31 December 2008	5.57	112,398

Out of the 112,398,000 outstanding share options, 96,583,000 (2007: Nil) share options were exercisable at 31 December 2008 with weighted average exercise price of HK\$5.52 (2007: Nil) per share. No share option was exercised during the year ended 31 December 2008 (2007: Nil).

Share options outstanding have the following expiry date and exercise price:

Expiry date	Exercise price (HK\$ per share)	Number of options ('000)	
		2008	2007
21 November 2008	7.63	—	525
23 September 2014	5.50	53,305	—
21 November 2010	7.56	975	—
31 December 2010	7.56	2,667	—
14 November 2014	5.50	55,451	—

The weighted average fair value of options granted during the year ended 31 December 2008 determined using the Black-Scholes valuation model was HK\$1.12 (2007: HK\$1.09) per option. The significant inputs into the model were weighted average share price of HK\$5.56 (2007: HK\$7.63) at the grant date, exercise price shown above, estimated volatility of 28.7% (2007: 43.6%), estimated dividend yield of 6.5% (2007: 5.0%) based on historical dividend of HK35.5 cents per share for the financial year 2007, expected option life of 3.34 (2007: 0.82) years, and annual risk-free interest rate of 1.88% (2007: 3.05%). Refer to Note 7 above for the total expense recognised in the consolidated income statement for share options granted to directors and employees. The volatility was measured based on statistical analysis of the weekly share prices of relevant market comparables over 182 weeks prior to the grant date of the share option.

The measurement dates of the share options were 26 March 2008 and 15 May 2008, being the dates of grant of the share options. Where the grantees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest or lapse.

Employee forfeiture rate is considered in determining the amount of share option expenses.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

### 22 Other reserves — the Group/Share-based compensation reserve and (accumulated losses)/retained earnings — the Company

#### The Group

	Share-based compensation reserve HK\$'000	Revaluation reserve HK\$'000	Total HK\$'000
At 1 January 2007	—	75,584	75,584
Share-based compensation (Note 7)	574	—	574
Fair value gains on available-for-sale financial assets (Note 18)	—	23,988	23,988
At 31 December 2007	574	99,572	100,146
At 1 January 2008	574	99,572	100,146
Share-based compensation (Note 7)	127,190	—	127,190
Fair value losses on available-for-sale financial assets (Note 18)	—	(12,935)	(12,935)
Adjustment on an available-for-sale financial asset (a)	—	3,420	3,420
Other adjustment (Note 2.2(c))	—	(86,713)	(86,713)
At 31 December 2008	127,764	3,344	131,108

- (a) An available-for-sale financial asset where the Group has interests, will liquidate in February 2009 and accordingly the accumulated fair value adjustments recognised in equity have been included in the consolidated income statement.

#### The Company

	Share-based compensation reserve	Retained earnings/ (accumulated losses)
At 1 January 2007	—	—
Share-based compensation (Note 7)	574	—
Profit for the year	—	1,586
At 31 December 2007	574	1,586
At 1 January 2008	574	1,586
Share-based compensation (Note 7)	127,191	—
Profit for the year	—	589,631
Dividends	—	(656,000)
At 31 December 2008	127,765	(64,783)



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

### 23 Deferred tax — the Group

The movement of deferred tax assets/(liabilities) is as follows:

	Accelerated tax depreciation HK\$'000
At 1 January 2007 and 31 December 2007	(126)
At 1 January 2008	(126)
Credited to consolidated income statement	385
At 31 December 2008	259

Deferred tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. At 31 December 2008, the Group did not have any tax losses that can be carried forward against future taxable income. At 31 December 2007, the Group did not recognise deferred tax assets of HK\$474,000 in respect of losses amounting to HK\$2,710,000 that can be carried forward against future taxable income. These tax losses have no expiry date.

### 24 Distribution fees payable — the Group

The carrying amounts of distribution fees payable approximate their fair value due to the short-term maturity. 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
<b>Total distribution fees payable</b>	<b>9,706</b>	<b>151,667</b>

Distribution fees payable are denominated in the following currencies:

	2008 HK\$'000	2007 HK\$'000
Japanese yen	55	207
United States dollar	9,651	151,460
<b>Total distribution fees payable</b>	<b>9,706</b>	<b>151,667</b>

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

### 25 Financial instruments by category

	The Group		The Company	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
<b>Category of financial assets</b>				
<b>Loans and receivables</b>				
Fees receivable	33,359	1,696,603	—	—
Other receivables	3,437	9,955	70	—
Cash and cash equivalents	562,165	745,088	68,722	2,374
	598,961	2,451,646	68,792	2,374
<b>Financial assets at fair value through profit or loss</b>				
Investments (Note 18)	140,233	9,076	—	—
<b>Available-for-sale financial assets</b>				
Investments (Note 18)	14,120	228,064	—	—
<b>Total</b>	<b>753,314</b>	<b>2,688,786</b>	<b>68,792</b>	<b>2,374</b>
<b>Category of financial liabilities</b>				
<b>Other financial liabilities at amortised cost</b>				
Accrued bonus	7,982	537,552	—	—
Amounts due to a subsidiary	—	—	48,740	48,490
Distribution fees payable	9,706	151,667	—	—
Other payables and accrued expenses	8,676	45,287	295	—
Dividends payable	—	660,000	—	—
<b>Total</b>	<b>26,364</b>	<b>1,394,506</b>	<b>49,035</b>	<b>48,490</b>

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

### 26 Net cash generated from operations

	2008 HK\$'000	2007 HK\$'000
Profit before tax	92,506	1,655,146
<i>Adjustments for</i>		
Interest income	(19,602)	(28,309)
Dividend income	(17,752)	(40,017)
Share-based compensation	127,190	574
Depreciation and amortisation	4,844	4,063
Other losses/(gains) — net (excluding net foreign exchange gains/losses)	62,763	(20,093)
Share of loss of joint ventures	—	203
<i>Changes in working capital</i>		
Fees receivable	1,663,244	(592,990)
Prepayments and other receivables (excluding receivable from a related party)	8,836	(11,118)
Accrued bonus	(529,570)	223,916
Distribution fees payable	(141,961)	61,736
Other payables and accrued expenses	(36,611)	25,267
<b>Net cash generated from operations</b>	<b>1,213,887</b>	<b>1,278,378</b>

#### Non-cash transactions

The principal non-cash transaction was the share swap between the Company and Value Partners Limited during the year ended 31 December 2007 as disclosed in Note 21 above.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

### 27 Commitments

#### 27.1 Capital commitments

The Group had commitments in respect of purchase of interests in Development Partners Fund and Value Partners Strategic Equity Fund which represent the portion of the committed capital not yet called for payment. Capital commitments not yet called are as follows:

	2008 HK\$'000	2007 HK\$'000
Contracted but not provided for		
Development Partners Fund	—	233
Value Partners Strategic Equity Fund	13,563	13,615
	<u>13,563</u>	<u>13,848</u>

#### 27.2 Operating lease commitments

The Group leases various offices and office equipment under non-cancellable operating lease agreements. The lease terms are between two and five years. The majority of lease agreements are renewable at the end of the lease period at market rate. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2008 HK\$'000	2007 HK\$'000
Not later than one year	5,280	9,055
Later than one year and not later than five years	1,830	6,350
<b>Total operating lease commitments</b>	<u>7,110</u>	<u>15,405</u>

## 28 Contingencies

The Group has contingent assets in respect of performance fees and contingent liabilities in respect of the performance fee element of distribution fees arising in the ordinary course of business.

### 28.1 Contingent assets

Performance fees for non-private equity fund products for each performance period are generally calculated annually with reference to a performance fee valuation day. Performance fees for private equity fund products are generally calculated at the end of the period over which the performance is measured (performance fee valuation day) and this is generally the end of the life of the private equity fund or upon each successful divestment of an investment of the private equity fund. Performance fees are only recognised when they are earned by the Group.

As a result, at 31 December 2008 and 2007, performance fees in respect of performance periods ending on a performance fee valuation day not falling within the corresponding year have not been recognised. These performance fees may be receivable in cash if a positive performance results (for non-private equity fund products) or a performance threshold is exceeded (for private equity fund products) on the performance fee valuation days, taking into consideration the relevant basis of calculation for the investment funds and managed accounts.

### 28.2 Contingent liabilities

The performance fee element of distribution fees is based on the performance fees earned by the Group. These distribution fees are recognised when the performance fees are earned by the Group and the Group is obliged to pay the corresponding distribution fees.

As a result, at 31 December 2008 and 2007, the performance fee element of distribution fees in respect of performance periods ending on a performance fee valuation day not falling within the corresponding year have not been recognised. These distribution fees may be payable in cash if the performance fees are subsequently earned on the performance fee valuation days.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

### 29 Business combinations

The Group acquired 100% of the issued share capital of three inactive companies in 2008 with total cash consideration of HK\$440,000. The acquired business had no significant contribution to the Group's revenue, profit before allocations, assets and liabilities. The Group subsequently disposed of 100% of the issued share capital of two of the newly acquired subsidiaries. The sales proceeds and the loss on disposal of subsidiaries amounted to HK\$250,000 and HK\$190,000 in 2008.

Other than the share swap between the Group and Value Partners Limited as disclosed in Note 21 above and the acquisition of subsidiaries from Value Partners Limited by the Company as discussed in Note 14 above, there are no acquisition of subsidiaries for the year ended 31 December 2007.

### 30 Related-party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

Apart from those disclosed in Notes 7.2, 7.3, 9, 13, 14, 16, 17, 18, 21, 26, 27.1 and 29 above, the Group has also entered into the following significant related-party transactions which, in the opinion of the directors, were carried out in the ordinary and usual course of the Group's business.

#### 30.1 Key management compensation

Key management includes executive directors and senior fund managers of the Group. The compensation to key management for employee services is as follows:

	2008 HK\$'000	2007 HK\$'000
Bonus, salaries and other short-term employee benefits	21,659	516,389
Share-based compensation	115,270	574
Pension costs — mandatory provident fund scheme	95	96
<b>Total key management compensation</b>	<b>137,024</b>	<b>517,059</b>

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

### 30 Related-party transactions (continued)

#### 30.2 Investments in own investment funds

The Group had investments in the following investment funds under its management and from which the Group earns fees from investment management activities and fund distribution activities:

	2008		2007	
	Holding	Fair value HK\$'000	Holding	Fair value HK\$'000
<b>Mutual funds/unit trusts</b>				
Asia Value Formula Fund	1,000,000	33,247	1,000,000	71,887
Manulife Global Fund				
— China Value Fund (a)	113,596	3,869	111,990	7,483
Value Partners China Greenchip Fund Limited (b)	200,000	3,656	200,000	8,588
Value Partners Classic Fund (c)	9,636	7,613	9,636	14,664
Value Partners Greater China Property Hedge Fund (d)	30,000	21,822	—	—
Value Partners Greater China Property Hedge Fund (e)	100	1	—	—
Value Partners Greater China Property Hedge Master Fund (e)	100	1	—	—
Value Partners Hedge Fund Limited (d), (f)	74,024	10,608	74,024	13,580
Value Partners High-Dividend Stocks Fund	40,025	7,708	40,025	14,545
Value Partners Intelligent Funds				
— China Convergence Fund (g)	19,744	9,323	19,744	17,075
Value Partners Intelligent Funds				
— Chinese Mainland Focus Fund	69,121	8,592	69,121	15,622
Value Partners Strategic Equity Fund (e)	1,000	8	1,000	8
Value Partners Strategic Equity Fund (h)	250,000	2,940	250,000	5,718
Value Partners Taiwan Fund	200,000	9,967	—	—
<b>Limited liability company</b>				
Value Partners Asia Fund, LLC		17,395		36,587
<b>Total investments in own investment funds</b>		<b>136,750</b>		<b>205,757</b>

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## Notes to the Consolidated Financial Statements

For the year ended 31 December 2008

### 30 Related-party transactions *(continued)*

#### 30.2 Investments in own investment funds *(continued)*

- (a) The shares held were Class A shares.
- (b) The shares held were redeemable Class A shares (ordinary shares before 26 March 2007).
- (c) The units held were "A" units.
- (d) The shares held were participating redeemable preference shares.
- (e) The shares held were management shares.
- (f) Formerly Value Partners China Hedge Fund Limited before 1 October 2008.
- (g) Formerly Value Partners Intelligent Funds — China ABH Shares Fund before 28 December 2007.
- (h) The shares held were non-voting shares.

#### 30.3 Investments in investment fund managed by a related company and receivable from a related company

At 31 December 2008, the Group had investments in Malabar India Fund, LP amounted to HK\$5,297,000 which is managed by Malabar Investment LLC in which the Group had an interest of 8.75%. The Group also had a receivable of HK\$1,163,000 from Malabar Investment LLC at 31 December 2008.

#### 30.4 Amounts due to a subsidiary

The amounts due to a subsidiary are unsecured, non-interest bearing and are not repayable within 12 months after the balance sheet date.

#### 30.5 Cash gift

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.

### 31 Events after the balance sheet date

With reference to Notes 17(b) and 28.1 above, the Group has received the performance fee of US\$6,795,000 from Development Partners (Cayman) Limited in February 2009. This income will be recognised in the first half of the financial year 2009.



## Particulars of Subsidiaries

As at 31 December 2008, details of the Group's subsidiaries under the Listing Rules are as follows:

Name	Place of incorporation	Principal activities and place of operation	Issued share capital
Hongkong Fund Management Limited	Hong Kong	Dormant	1 ordinary share of HK\$1
Hongkong Investment Management Limited	Hong Kong	Dormant	1 ordinary share of HK\$1
Middle Star Capital Limited	Hong Kong	Dormant	1 ordinary share of HK\$1
Sensible Asset Management Hong Kong Limited	Hong Kong	Investment management in Hong Kong	1,000,000 ordinary shares of HK\$1 each share
Sensible Asset Management Limited	British Virgin Islands	Investment management in Hong Kong	2,000,000 ordinary shares of US\$0.1 each
Sunny Country Enterprises Limited	Hong Kong	Dormant	1 ordinary share of HK\$1
Value Funds Limited	Hong Kong	Investment Holdings	1 ordinary share of HK\$1
Value Partners (Cayman GP) Limited	Cayman Islands	Inactive	1 ordinary share of US\$1
Value Partners (Cayman GP) II Ltd	Cayman Islands	Managing member of three investment funds managed by Value Partners Limited/ Value Partners Hong Kong Limited	1 ordinary share of US\$1
Value Partners Consulting Limited	Hong Kong	Dormant	1 ordinary share of HK\$1
Value Partners Hong Kong Limited	Hong Kong	Investment management in Hong Kong	5,000,000 ordinary shares of HK\$1 each
Value Partners Investment Services Pte. Ltd.	Singapore	Sales and marketing activities in Singapore	150,000 ordinary shares of S\$1 each
Value Partners Limited	British Virgin Islands	Investment management, investment holding and securities dealing in Hong Kong	11,409,459 Class A ordinary shares and 3,893,318 Class B ordinary shares of US\$0.1 each
Value Partners Private Equity Limited	British Virgin Islands	Investment management and provision of research and investment advisory services in Hong Kong	7,000,000 ordinary shares of US\$0.1 each
Valuegate Holdings Limited	British Virgin Islands	Trademark holding in Hong Kong	2 ordinary shares of US\$1 each
Value Partners Strategic Equity Fund (note)	Cayman Islands	Investment Fund	1,000 voting non-participating management shares of US\$1 each

Note: Value Partners Strategic Equity Fund ("VPSEF") is the Group's subsidiary for the purposes of Listing Rules. In accordance with Hong Kong Financial Reporting Standards, the interest in VPSEF is accounted for as an investment and is classified as investment at fair value through profit & loss accounts rather than a subsidiary of the Group in view of the economic substance of the transaction and other considerations according to the accounting standards. Therefore, VPSEF's results are not accounted for by the Group in the consolidated financial statements and VPSEF also is not included in the list of subsidiaries in Note 14 to the consolidated financial statements.

[www.valuepartnersgroup.com.hk](http://www.valuepartnersgroup.com.hk)

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