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VALUE PARTNERS GROUP LIMITED
惠理集團有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 806)

INTERIM RESULTS ANNOUNCEMENT
FOR THE PERIOD ENDED 30 JUNE 2017

FINANCIAL HIGHLIGHTS

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

(In HK\$ million)	For the period ended 30 June		
	2017 Unaudited	2016 Unaudited	% Change
Total revenue	752.3	709.1	+6.1%
Gross management fees	546.7	529.2	+3.3%
Gross performance fees	22.3	5.2	+328.8%
Operating profit (before other gains/losses)	140.3	109.5	+28.1%
Profit attributable to owners of the Company	219.5	5.0	+4,290.0%
Basic earnings per share (HK cents)	11.8	0.3	+3,833.3%
Diluted earnings per share (HK cents)	11.8	0.3	+3,833.3%
Interim dividend per share	Nil	Nil	

INTERIM RESULTS

The Board of Directors (the “Board”) of Value Partners Group Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the period ended 30 June 2017.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2017

	<i>Note</i>	Six months ended 30 June	
		2017 <i>HK\$'000</i> Unaudited	2016 <i>HK\$'000</i> Unaudited
Income			
Fee income and other revenue	2	752,242	709,102
Distribution fee expenses		(407,861)	(394,201)
Net fee income		344,381	314,901
Other income		21,961	13,788
Total net income		366,342	328,689
Expenses			
Share-based compensation		(12,337)	(44,109)
Other compensation and benefit expenses		(154,151)	(117,769)
Operating lease rentals		(14,044)	(13,782)
Other expenses		(45,501)	(43,519)
Total expenses		(226,033)	(219,179)
Operating profit (before other gains/losses)		140,309	109,510
Net gains/(losses) on investments		96,044	(81,041)
Net gains/(losses) on investments held-for-sale		3,082	(10,869)
Others		10,419	1,620
Other gains/(losses) – net	3	109,545	(90,290)
Operating profit (after other gains/losses) and profit before tax		249,854	19,220
Tax expense	4	(24,645)	(14,916)
Profit for the period from continuing operations		225,209	4,304
Discontinued operations			
Loss for the period from discontinued operations	5	(6,834)	(942)
Profit for the period		218,375	3,362
Profit/(loss) for the period attributable to			
Owners of the Company			
– Continuing operations		226,435	5,891
– Discontinued operations		(6,934)	(874)
		219,501	5,017
Non-controlling interests		(1,126)	(1,655)
		218,375	3,362

		Six months ended 30 June	
	Note	2017 HK\$'000 Unaudited	2016 HK\$'000 Unaudited
Other comprehensive income/(loss) for the period			
<i>– Items that may be subsequently reclassified to profit or loss</i>			
Fair value gains/(losses) on available-for-sale financial assets		6,298	(360)
Foreign exchange translation		10,924	(7,967)
Other comprehensive income/(loss) for the period	6	17,222	(8,327)
Total comprehensive income/(loss) for the period		235,597	(4,965)
Total comprehensive income/(loss) for the period attributable to			
Owners of the Company			
– Continuing operations		239,294	3,072
– Discontinued operations		(4,172)	(6,032)
		235,122	(2,960)
Non-controlling interests		475	(2,005)
		235,597	(4,965)
Earnings/(loss) per share from continuing and discontinued operations attributable to owners of the Company (HK cents per share)			
Basic earnings/(loss) per share			
– Continuing operations		12.2	0.3
– Discontinued operations		(0.4)	(0.0)
	7	11.8	0.3
Diluted earnings/(loss) per share			
– Continuing operations		12.2	0.3
– Discontinued operations		(0.4)	(0.0)
	7	11.8	0.3

CONDENSED CONSOLIDATED BALANCE SHEET
As at 30 June 2017

	<i>Note</i>	30 June 2017 HK\$'000 Unaudited	31 December 2016 HK\$'000 Audited
Non-current assets			
Property, plant and equipment		6,805	10,603
Intangible assets		11,059	14,047
Deferred tax assets		–	15,384
Investments	9	784,934	734,229
Other assets		7,556	8,616
Loan portfolio, net		–	67,795
		810,354	850,674
Current assets			
Investments	9	55,137	41,756
Investments held-for-sale	10	16,576	14,875
Fees receivable	11	132,511	112,429
Loan portfolio, net		–	55,986
Prepayments and other receivables		33,034	33,040
Deposits with brokers		33,748	175,310
Time deposits		–	43,781
Cash and cash equivalents	12	2,568,004	2,629,131
		2,839,010	3,106,308
Assets of disposal groups classified as held-for-sale	5	392,393	–
		3,231,403	3,106,308
Current liabilities			
Investments	9	9,576	4,121
Accrued bonus		51,368	53,181
Distribution fee expenses payable	13	116,830	105,967
Other payables and accrued expenses		48,605	25,021
Other financial liabilities	14	4,752	4,527
Current tax liabilities		23,299	3,276
		254,430	196,093
Liabilities of disposal groups classified as held-for-sale	5	897	–
		255,327	196,093
Net current assets		2,976,076	2,910,215

	<i>Note</i>	30 June 2017 <i>HK\$'000</i> Unaudited	31 December 2016 <i>HK\$'000</i> Audited
Non-current liabilities			
Accrued bonus		68	320
Deferred tax liabilities		65	–
		133	320
Net assets		3,786,297	3,760,569
Equity			
Equity attributable to owners of the Company			
Issued equity	<i>15</i>	1,391,473	1,391,473
Other reserves		166,331	148,515
Retained earnings		2,165,165	2,157,728
		3,722,969	3,697,716
Non-controlling interests		63,328	62,853
Total equity		3,786,297	3,760,569

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. BASIS OF PREPARATION

The information from this interim results announcement has been extracted from the unaudited condensed consolidated interim financial information for the six months ended 30 June 2017. The unaudited condensed consolidated interim financial information for the six months ended 30 June 2017 has been prepared in accordance with HKAS 34 “Interim Financial Reporting”. The unaudited condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2016, which have been prepared in accordance with Hong Kong Financial Reporting Standards (the “HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants.

2. REVENUE

Revenue consists of fees from investment management activities and fund distribution activities.

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	Unaudited	Unaudited
Management fees	546,666	529,169
Performance fees	22,291	5,186
Front-end fees	183,285	174,747
	<u>752,242</u>	<u>709,102</u>
Total fee income	<u>752,242</u>	<u>709,102</u>

3. OTHER GAINS/(LOSSES) – NET

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	Unaudited	Unaudited
Net gains/(losses) on investments		
Gains on financial assets at fair value through profit or loss	111,159	31,275
Losses on financial assets at fair value through profit or loss	(15,115)	(112,316)
Net gains/(losses) on investments held-for-sale		
Gains on investments held-for-sale	3,082	–
Losses on investments held-for-sale	–	(10,869)
Others		
Net foreign exchange gains	10,385	1,620
Gains on disposal of property, plant and equipment	34	–
	<u>109,545</u>	<u>(90,290)</u>
Total other gains/(losses) – net	<u>109,545</u>	<u>(90,290)</u>

4. TAX EXPENSE

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

Hong Kong profits tax has been provided on the estimated assessable profit for the six months ended 30 June 2017 at the rate of 16.5% (2016: 16.5%). Tax outside Hong Kong is calculated at the rates applicable in the relevant jurisdictions.

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	Unaudited	Unaudited
Current tax		
Hong Kong profits tax	24,151	14,523
Overseas tax	1,601	722
Adjustments in respect of prior years	(145)	184
Total current tax	25,607	15,429
Deferred tax		
Origination and reversal of temporary differences	(962)	(513)
Total tax expense	24,645	14,916

5. DISCONTINUED OPERATIONS AND DISPOSAL GROUPS

During the period ended 30 June 2017, the Group entered into a sale and purchase agreement with a third party to sell its entire issue share capital of Brilliant Star Capital (Cayman) Limited, which indirectly holds 90% of Chengdu Vision Credit Limited ("Vision Credit"), the Group's small loan business in Chengdu. As at 30 June 2017, the carrying amount of the Group's investment in Vision Credit was written down to its fair value less costs to sell of HK\$305 million (representing the Group's 90% ownership), and an impairment loss of HK\$7.4 million was recognized. This disposal group's results are presented in the condensed consolidated interim financial information as a discontinued operation. Comparative figures relating to this discontinued operation on the condensed consolidated statement of comprehensive income have been restated.

During the same period, the Group entered into another sale and purchase agreement with a third party to sell its 62.05% interest in Value Partners Concord Asset Management Co., Ltd., an investment management business in Taiwan, for a consideration of HK\$35 million (representing the Group's 62.05% ownership).

Both transactions are expected to be completed by end of 2017. The disposal group's assets and liabilities are separately disclosed on the condensed consolidated balance sheet as at 30 June 2017.

6. OTHER COMPREHENSIVE INCOME/(LOSS)

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	Unaudited	Unaudited
<i>Items that may be subsequently reclassified to profit or loss:</i>		
Fair value gains/(losses) on available-for-sale financial assets	6,298	(360)
Foreign exchange translation	10,924	(7,967)
Total other comprehensive income/(loss)	17,222	(8,327)

7. EARNINGS PER SHARE

The calculations of basic and diluted earnings per share are based on the profit attributable to owners of the Company of HK\$219,501,000 (2016: HK\$5,017,000).

The basic earnings per share is based on the weighted average number of shares in issue during the period of 1,851,715,000 (2016: 1,848,715,000). The diluted earnings per share is calculated by adjusting the weighted average number of shares in issue during the period of 1,853,473,000 (2016: 1,848,715,000) by 1,758,000 (2016: 2,840,000) to assume conversion of all dilutive potential ordinary shares granted under the Company's share option scheme.

8. DIVIDENDS

Dividends declared by the Company of HK\$222,206,000 are related to the year ended 31 December 2016 and were paid on 25 May 2017. No interim dividend was proposed by the Board of Directors for the six months ended 30 June 2017 (2016: Nil).

9. INVESTMENTS

Investments include the following:

	Financial assets at fair value through profit or loss		Available-for-sale financial assets		Total	
	30 June 2017 HK\$'000 Unaudited	31 December 2016 HK\$'000 Audited	30 June 2017 HK\$'000 Unaudited	31 December 2016 HK\$'000 Audited	30 June 2017 HK\$'000 Unaudited	31 December 2016 HK\$'000 Audited
Listed securities (by place of listing)						
Equity securities – Long – China	2,186	–	–	–	2,186	–
Equity securities – Long – Hong Kong	37,490	30,583	–	–	37,490	30,583
Equity securities – Short – Hong Kong	(4,410)	(3,644)	–	–	(4,410)	(3,644)
Equity securities – Long – Singapore	3,368	4,514	–	–	3,368	4,514
Equity securities – Long – Taiwan	–	4,428	–	–	–	4,428
Equity securities – Long – United States	11,988	2,230	–	–	11,988	2,230
Equity securities – Short – United States	(4,842)	–	–	–	(4,842)	–
Investment funds – Hong Kong	192,022	173,363	–	–	192,022	173,363
Market value of listed securities	237,802	211,474	–	–	237,802	211,474
Unlisted securities (by place of incorporation/establishment)						
Equity securities – Singapore	–	–	1,908	5,594	1,908	5,594
Investment funds – Australia	19,949	17,573	–	–	19,949	17,573
Investment funds – Cayman Islands	205,323	288,336	5,159	4,341	210,482	292,677
Investment funds – China	20,915	13,869	1,312	1,183	22,227	15,052
Investment funds – Ireland	122,183	38,063	–	–	122,183	38,063
Investment funds – Luxembourg	–	–	74,072	71,867	74,072	71,867
Investment funds – United States	73,244	60,675	33,717	25,711	106,961	86,386
Fair value of unlisted securities	441,614	418,516	116,168	108,696	557,782	527,212
Derivative financial instruments						
Equity swap – China	35,129	33,655	–	–	35,129	33,655
Equity swap – Taiwan	(93)	(39)	–	–	(93)	(39)
Equity swap – South Korea	(210)	–	–	–	(210)	–
Index futures – Hong Kong	85	(438)	–	–	85	(438)
Fair value of derivative financial instruments	34,911	33,178	–	–	34,911	33,178
Total investments	714,327	663,168	116,168	108,696	830,495	771,864

9. INVESTMENTS (CONTINUED)

	Financial assets at fair value through profit or loss		Available-for-sale financial assets		Total	
	30 June 2017 <i>HK\$'000</i> <i>Unaudited</i>	31 December 2016 <i>HK\$'000</i> <i>Audited</i>	30 June 2017 <i>HK\$'000</i> <i>Unaudited</i>	31 December 2016 <i>HK\$'000</i> <i>Audited</i>	30 June 2017 <i>HK\$'000</i> <i>Unaudited</i>	31 December 2016 <i>HK\$'000</i> <i>Audited</i>
Representing:						
Non-current	668,766	625,533	116,168	108,696	784,934	734,229
Current	45,561	37,635	-	-	45,561	37,635
Total investments	714,327	663,168	116,168	108,696	830,495	771,864

10. INVESTMENTS HELD-FOR-SALE

The Group classified the following interests in investment funds as held-for-sale as the Group intends to market these funds and dilute its holdings as soon as practically possible to a level where its aggregate economic interest does not constitute a control. As at 30 June 2017 and 31 December 2016, the major assets of the above funds were listed equity securities.

	30 June 2017 <i>HK\$'000</i> <i>Unaudited</i>	31 December 2016 <i>HK\$'000</i> <i>Audited</i>
Investment funds – Taiwan	16,576	14,875
Total investments held-for-sale	16,576	14,875

11. FEES RECEIVABLE

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

	30 June 2017 <i>HK\$'000</i> <i>Unaudited</i>	31 December 2016 <i>HK\$'000</i> <i>Audited</i>
Fees receivable that were past due but not impaired		
1 – 30 days	1,666	490
31 – 60 days	177	1,096
61 – 90 days	456	1,475
Over 90 days	17	2,436
	2,316	5,497
Fees receivable that were within credit period	130,195	106,932
Total fees receivable	132,511	112,429

12. CASH AND CASH EQUIVALENTS

	30 June 2017 HK\$'000 Unaudited	31 December 2016 HK\$'000 Audited
Cash at banks and in hand	319,460	183,371
Short-term bank deposits	2,247,839	2,439,201
Deposits with brokers	705	6,559
	<hr/>	<hr/>
Total cash and cash equivalents	2,568,004	2,629,131

13. DISTRIBUTION FEE EXPENSES PAYABLE

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

	30 June 2017 HK\$'000 Unaudited	31 December 2016 HK\$'000 Audited
0 – 30 days	116,558	103,357
31 – 60 days	71	2,129
61 – 90 days	13	244
Over 90 days	188	237
	<hr/>	<hr/>
Total distribution fee expenses payable	116,830	105,967

14. OTHER FINANCIAL LIABILITIES

The Group consolidates certain seed capital investments where it is deemed to have control, and records an additional liability representing the fair value of the proportional of the fund owned by third party investors.

15. ISSUED EQUITY

	Number of shares	Issued equity HK\$'000
Unaudited		
As at 1 January 2017 and 30 June 2017	1,851,714,831	1,391,473
	<hr/>	<hr/>
Unaudited		
As at 1 January 2016 and 30 June 2016	1,848,714,831	1,377,533
	<hr/>	<hr/>

REPORT OF THE CHIEF EXECUTIVE OFFICER

A thriving start

Value Partners had a promising start in 2017 fueled by fund performance enhancement, new product launches and distribution network expansion. As at 30 June 2017, assets under management (“AUM”) of the Group increased 17% to US\$15.5 billion from US\$13.2 billion at end-2016.

In the six months ended 30 June 2017, profit attributable to owners of the Company surged to HK\$220 million from HK\$5 million a year earlier. The significant improvement was mainly attributable to net fair value gains and realized gains of HK\$99 million from the Group’s treasury operations on the back of our strong fund performance, reversing the HK\$92 million of net fair value losses and realized losses reported a year earlier.

Gross management fees, our major revenue contributor, rose slightly to HK\$547 million (1H 2016: HK\$529 million). Meanwhile, gross performance fees grew considerably to HK\$22 million from HK\$5 million a year earlier. As performance fees for most of our major own branded funds crystallize at the end of the year, fund performance in the second half would determine if we can collect more performance fees this year.

Value Partners’ positioning

Hong Kong’s fund management industry is entering a golden age amid China’s tremendous increase in investment demand. As the largest homegrown asset manager in Hong Kong bridging investment needs between China and the rest of the world, Value Partners aims to become an Investment Solution Provider to Chinese investors, as well as a China Investment Expert to investors around the world. We have embarked on this exciting journey with a number of new initiatives, as highlighted in the following sections, to expand our investment capabilities and business scope.

Investment capabilities

Over the years, we have been broadening our product offerings in terms of asset classes and geographical exposures to help our clients meet their investment goals. Since the beginning of this year, we have added a number of senior investment professionals to our 60-plus investment team to further strengthen our investment capabilities.

1. *Equities*

Value Partners has been well recognized by investors and the industry in the past 24 years since we launched our flagship Value Partners Classic Fund in 1993. To further enhance this core strategy, we have been incorporating the use of big data in our bottom-up analysis. In the first half of 2017, Value Partners Classic Fund delivered a return¹ of +25.3%, outperforming the Hang Seng Index by 6.6 percentage points. The fund also attained first-quartile ranking² among its peers over the one-year, three-year, five-year, ten-year, as well as since-inception periods.

2. Fixed income

As interest rates were expected to stay relatively low amid a gradual rate hike cycle by the United States, investors continued to seek for yields and directed inflows to high yield products. Our flagship fixed income fund – Value Partners Greater China High Yield Income Fund (“GCHY”) – attracted over US\$1 billion of net inflows in the first six months of this year after delivering a total return³ of +15.9% in 2016.

With the success of GCHY and strong investor demand, we have further extended the geographical coverage of our fixed income offerings to include Asia and global emerging markets. These products have been well received by the market as they feature attractive yield opportunities.

3. Quantitative investment and exchange-traded funds (“ETFs”)

Value Partners is one of the local pioneers in developing quantitative investment capability.

Value investing has been the Group’s core philosophy which guides our investment professionals to conduct intensive fundamental research and analysis to identify value opportunities. In recent years, our fundamental research has been associated with big data analytics, which is an effective tool to help analysing market trends based on massive data. Our quantitative investment team has been focusing on big data applications and analysis for more than three years.

Separately, we were the first manager to list a smart beta ETF based on value investing, namely the Value China ETF, on the Hong Kong Stock Exchange back in 2009. Our ETF series currently consist of five equity ETFs and one physical gold ETF.

In view of rising institutional demand for ETFs, we have recently repositioned our Value China ETF, Value China A-Share ETF and Value Gold ETF as institutional products with the appropriate fee reduction.

We will constantly review our offerings within the quantitative and ETF space to meet the diversified needs of investors.

4. SMART Investment Strategy

To address institutional investors’ demand for cost-efficient products that aim to deliver consistent performance against market indices, we have created a SMART Investment Strategy as our new institutional offering. Simply put, the SMART Investment Strategy is a combination of our well-proven fundamental stock-picking skill (i.e. SMART alpha) and SMART beta capability. We are introducing new products, which include a GEM equity fund⁴ launched in early August 2017, based on the SMART Investment Strategy.

5. *Multi-asset*

Leveraging the success of our multi-asset strategy in the past two years, we are pleased to announce a collaboration with AIA Pension and Trustee Co. Ltd. (“AIA MPF”). In July 2017, AIA MPF worked with Value Partners to launch a new fund option under its AIA MPF - Prime Value Choice scheme. This new fund is the first of its kind in Hong Kong’s MPF market as it can invest flexibly among stocks and debt securities in Hong Kong and China, with a maximum 9% exposure to gold via investing in gold ETFs, to optimize risk/return trade-offs over various market cycles.

6. *Alternatives*

In addition to expanding our capacity in equities and bonds, we have broadened our asset class coverage to include alternatives with the launch of our first real estate private equity fund⁴ targeting institutional investors in July 2017. The new fund focuses on quality real estate assets in Asia Pacific with stable income streams. We will continue to grow our alternative investment expertise in the near future.

Business scope

While further enriching our product suite and services, we have also taken measures to streamline our operations and strengthen resources in several strategic business areas.

1. *Quantitative Investment Solutions Team*

To consolidate our resources to drive the Group’s ETF business, big data application, and the development of quantitative products, a Quantitative Investment Solutions Team has been set up under the leadership of Mr. Kai MAK, Co-Managing Director of Quantitative Investment Solutions and Senior Fund Manager, as well as Mr. David QUAH, Co-Managing Director of Quantitative Investment Solutions.

Mr. MAK has been in charge of Value Partners’ quantitative investment activities, including the management of Value ETFs, since 2006. Mr. QUAH, who has over 20 years of experience in ETF and quantitative products, joined Value Partners in early August 2017 to co-lead the Quantitative Investment Solutions Team focusing on business development and management.

2. *China business*

The golden opportunity brought by China's capital market liberalization has become more prominent in 2017 with a number of "game changers" emerged in the first half of the year. In June 2017, MSCI, an index provider, finally approved the inclusion of 222 Shanghai and Shenzhen-listed large-cap A shares into its main emerging market index from June 2018 after rejecting China's previous three attempts. The Bond Connect program was then launched in less than a month after the MSCI A-share inclusion announcement.

China's continued capital account opening will unleash massive investment demand providing us a once-in-a-lifetime opportunity to transform our business. We identified this prospect as early as in 1997 when we were among the earliest foreign asset managers, if not the first, to invest in the China B-share market. We were also one of the pioneers that have set up a local investment team in Shanghai back in 2009. In 2015, we became the first Hong Kong fund management company to gain the Qualified Domestic Limited Partner ("QDLP") license. We are grateful to have enjoyed first-mover advantage in a number of aspects over the years. Currently, we are also in the process of applying for a Private Fund Management ("PFM") qualification which will allow us to offer Value Partners' own-branded funds on the mainland through private placement.

To stay ahead of the game amid more intense competition, we have recently beefed up our China Business Team with the appointment of Mr. YU Xiaobo, who has been with Value Partners since 2009, as Head of China Business in addition to his current role as Investment Director. A seasoned mainland professional with 10 years of China investment experience, Mr. YU will leverage his local expertise to expand our China business with the support of a full-scale operation on the ground.

3. *Overseas business*

Elsewhere in Singapore and United Kingdom, we are also spearheading development in the two locations which are strategic hubs to the Group. In Singapore, we continue to deepen our distribution network while leading the development of SMART Investment Strategy. Meanwhile, the UK office is making good progress in signing up a global agreement with one of the largest fund distribution platforms in Europe.

To optimize resources for our expansion in China and other strategic markets, the Group has entered into sale and purchase agreements to dispose its equity holdings in two joint ventures – Value Partners Concord Asset Management Co., Ltd. in Taiwan (in June 2017) and Chengdu Vision Credit Limited in China (in April 2017).

Outlook

Value Partners' fund management capabilities and investment performance are well recognized in the industry. In the first half of the year, we won new equity and fixed income awards that extended our list of accolades to more than 140 prizes since our establishment in 1993. The success of Value Partners is underpinned by our dedication, professionalism and team work.

Over the near term, we believe geopolitical events will remain and add to market volatility, but we are confident that the Chinese economy is on a solid recovery path. Meanwhile, the call for lower fees and the use of information technology in the asset management industry may post cost pressure on asset managers. To counter this headwind, we are taking proactive measures to improve our operational efficiency and enrich our investment capabilities. We are committed to delivering consistent performance and appropriate investment solutions to help our clients walk through different market cycles.

Appreciation

I would like to take this opportunity to thank my colleagues once again for their dedication and pursuit of performance excellence. Appreciation also goes to our investors, business partners and shareholders.

Dr. AU King Lun MH, Ph.D

Chief Executive Officer and Executive Director

1. *Performance of Value Partners Classic Fund (A Units) as at 30 June 2017, in USD, NAV to NAV, with dividend reinvested and net of fees. Annual performance over the past five years: 2012: +14.0%; 2013: +11.2%; 2014: +13.5%; 2015: -1.5%; 2016: -3.2%; 2017 (Year to date as at 30 June): +25.3%.*
2. *Based on performance data as of 30 June 2017, among peer funds under Greater China Equity Morningstar Category.*
3. *Performance of Value Partners Greater China High Yield Income Fund (Class P Acc USD) as at 31 December 2016, in USD, NAV to NAV, with dividend reinvested and net of fees. Annual performance over the past five years: 2012: +13.0%; 2013: +1.2%; 2014: +1.1%; 2015: +6.1%; 2016: +15.9%; 2017 (Year to date as at 30 June): +5.6%.*
4. *The fund is not authorized by the Securities and Futures Commission and is not available to the general public in Hong Kong.*

FINANCIAL REVIEW

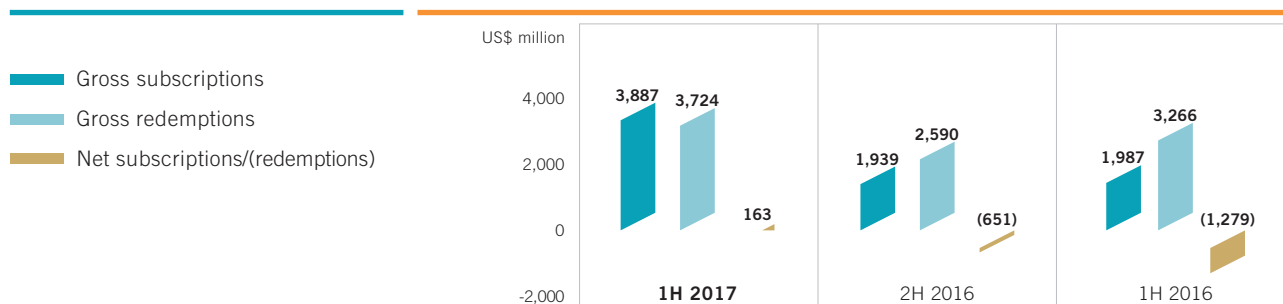
Assets Under Management

AUM and return

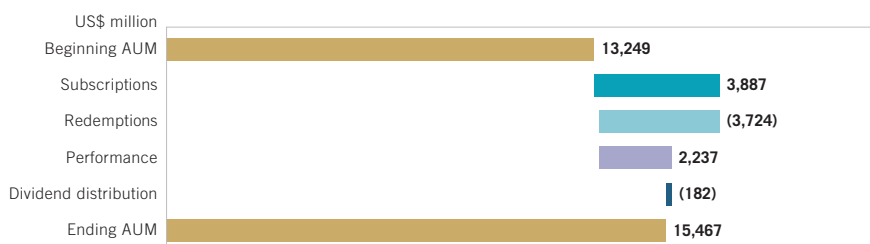
As at the end of June 2017, the Group's AUM increased 16.7% to US\$15,467 million (31 December 2016: US\$13,249 million). The growth was mainly bolstered by positive fund returns of US\$2,237 million and net subscriptions of US\$163 million in the first half of 2017.

Overall fund performance¹, calculated in asset-weighted average return of funds under management, was +16.7% in the period under review. Among all, Value Partners Classic Fund², our flagship product, rose 25.3% during the period. Meanwhile, Value Partners High-Dividend Stocks Fund³, the Group's largest public fund⁴ in Hong Kong, gained 18.2% during the period.

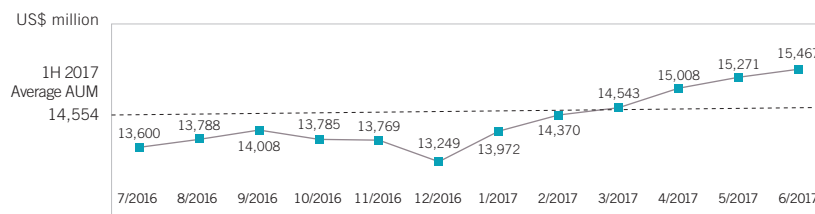
Benefiting from the market recovery, we recorded net inflows of US\$163 million in the first half of 2017, reversing net outflows in 2016 (2H 2016: net redemptions of US\$651 million; 1H 2016: net redemptions of US\$1,279 million). During the period, our gross subscriptions increased significantly to US\$3,887 million (2H 2016: US\$1,939 million), while our gross redemptions rose to US\$3,724 million (2H 2016: US\$2,590 million).



AUM change in the first half of 2017



Monthly AUM in the past twelve months



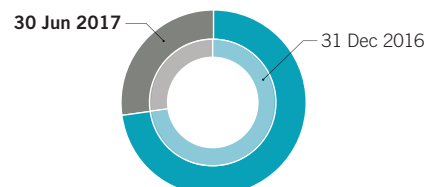
AUM by category

The charts below illustrated the breakdown of the Group's AUM as at 30 June 2017 in two different classifications: by brand and strategy. During the period, Own Branded Funds (73%) remained the major contributor to the Group's AUM amid our expansion in distribution network. In terms of strategy, Absolute Return Long-biased Funds (75%) continued to represent the majority of the Group's AUM, followed by Fixed Income Funds (23%), in which the largest share was taken up by Value Partners Greater China High Yield Income Fund.

Classification by brand

- Own Branded Funds
- White Label & Co-branded Funds

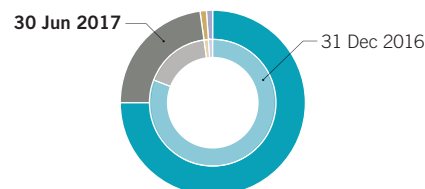
30 Jun 2017	31 Dec 2016
73%	73%
27%	27%



Classification by strategy

- Absolute Return Long-biased Funds
- Fixed Income Funds
- Quantitative Funds & ETF
- Alternative Funds

30 Jun 2017	31 Dec 2016
75%	81%
23%	17%
1%	1%
1%	1%



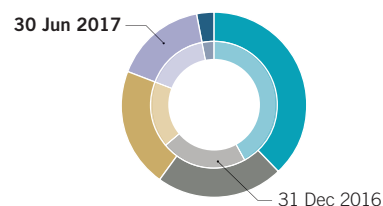
Client base

During the period, institutional clients – including institutions, pension funds, high-net-worth individuals (“HNWIs”), endowments and foundations, funds of funds, together with family offices and trusts – remained the Group's primary set of fund investors, accounting for 62% of total AUM (31 December 2016: 58%). Meanwhile, retail clients contributed to 38% of total AUM (31 December 2016: 42%). In terms of geographical location, Hong Kong clients accounted for 83% of the Group's AUM (31 December 2016: 83%) while United States and Europe took up a combined 6% (31 December 2016: 7%).

Client analysis by type

- Retail
- Pension funds
- High-net-worth individuals
- Institutions
- Others

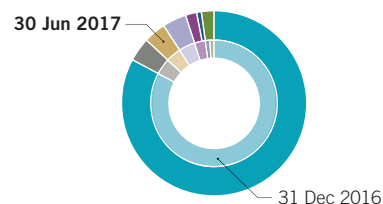
30 Jun 2017	31 Dec 2016
38%	42%
22%	22%
21%	17%
16%	16%
3%	3%



Client analysis by geographical region

- Hong Kong
- United States
- Singapore
- China
- Europe
- Australia
- Others

30 Jun 2017	31 Dec 2016
83%	83%
4%	4%
4%	4%
4%	4%
4%	4%
2%	3%
1%	1%
2%	1%



Summary of results

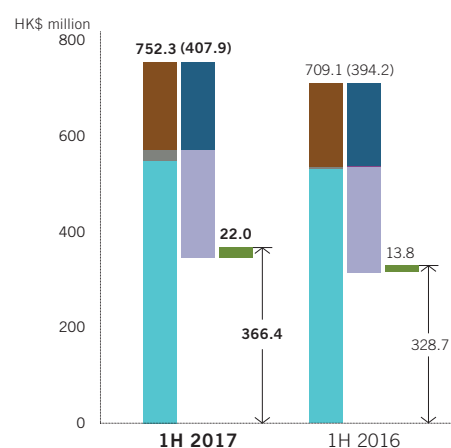
Key financial highlights for the reporting period are as follows:

(In HK\$ million)	1H 2017	1H 2016	% Change
Total revenue	752.3	709.1	+6.1%
Gross management fees	546.7	529.2	+3.3%
Gross performance fees	22.3	5.2	+328.8%
Operating profit (before other gains/losses)	140.3	109.5	+28.1%
Profit attributable to owners of the Company	219.5	5.0	+4,290.0%
Basic earnings per share (HK cents)	11.8	0.3	+3,833.3%
Diluted earnings per share (HK cents)	11.8	0.3	+3,833.3%
Interim dividend per share	Nil	Nil	

Revenue and fee margin

Breakdown of total net income

(In HK\$ million)	1H 2017	1H 2016
Revenue		
Management fees	546.7	529.2
Performance fees	22.3	5.2
Front-end fees	183.3	174.7
Distribution fee expenses		
Management fee rebates	(224.2)	(219.8)
Performance fee rebates	(0.8)	(0.2)
Other revenue rebates	(182.9)	(174.2)
Other income		
Other income	22.0	13.8



The Group's profit attributable to owners of the Company surged to HK\$219.5 million for the six months ended 30 June 2017 (1H 2016: HK\$5.0 million). Total revenue grew by 6.1% to HK\$752.3 million (1H 2016: HK\$709.1 million). Gross management fees, the major contributor to our revenue, rose 3.3% to HK\$546.7 million (1H 2016: HK\$529.2 million) as a result of a 3.7% increase in the Group's average AUM to US\$14,554 million (1H 2016: US\$14,037 million).

During the period, annualized gross management fee margin stayed at 98 basis points (1H 2016: 98 basis points). As management fee rebates for distribution channels slightly edged up to HK\$224.2 million (1H 2016: HK\$219.8 million), annualized net management fee margin remained stable at 57 basis points (1H 2016: 57 basis points).

Gross performance fees, another source of revenue, grew by HK\$17.1 million to HK\$22.3 million (1H 2016: HK\$5.2 million). Performance fees are generated when funds, at the dates of their performance fee crystallization, report returns exceeding their benchmarks or high watermarks for the respective period ended. As the dates of performance fee crystallization for most of our major own branded funds are at the end of the year, fund performance in the second half of the year will determine our ability to collect more performance fees in 2017.

Meanwhile, other revenue mainly included front-end load, of which a substantial amount was rebates to distribution channels (a usual practice in the market).

Other income, which mainly comprised interest income and dividend income, was HK\$22.0 million (1H 2016: HK\$13.8 million). Interest income rose to HK\$13.5 million (1H 2016: HK\$6.8 million) while dividend income increased to HK\$8.1 million (1H 2016: HK\$6.0 million).

Other gains or losses

Breakdown of other gains/(losses) – net	(In HK\$ million)	1H 2017	1H 2016
	Net gains/(losses) on investments	96.0	(81.0)
	Net gains/(losses) on investments held-for-sale	3.1	(10.9)
	Others	10.4	1.6
		109.5	(90.3)

Other gains or losses mainly included fair value changes and realized gains or losses on seed capital investments, investments in own funds and other investments, as well as net foreign exchange gains or losses. Seed capital investments were made by the Group to provide capital that was considered necessary to new funds during the initial phase of fund launches. The Group also invested in its own funds side-by-side with investors where appropriate, for better alignment of interests and investment returns.

Cost management

Breakdown of total expenses

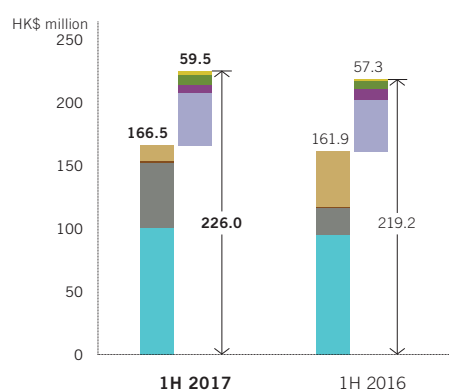
(In HK\$ million)

Compensation and benefit expenses

	1H 2017	1H 2016
Fixed salaries and staff benefits	101.0	95.7
Management bonus	51.1	21.2
Staff rebates	2.1	0.9
Share-based compensation expenses	12.3	44.1

Other expenses

Other fixed operating costs	42.0	40.9
Sales and marketing	6.4	9.1
Depreciation	8.6	6.5
Non-recurring expenses	2.5	0.8



In terms of cost management, the Group continued to exercise stringent cost discipline and aimed to keep fixed operating expenses well covered by net management fee income (by around 2 times), a relatively stable income source. Such coverage is measured by “fixed cost coverage ratio”, an indicator showing the number of times that fixed operating expenses (excluding discretionary and on-recurring expenses) are covered by net management fee income. For the current period, the Group reported a fixed cost coverage ratio (for asset management business) of 2.3 times (1H 2016: 2.3 times).

Compensation and benefit expenses

During the period, fixed salaries and staff benefits grew by HK\$5.3 million to HK\$101.0 million (1H 2016: HK\$95.7 million). The increase was mainly attributable to salary increments.

In line with the Group’s compensation policy – which distributes 20% to 23% of the annual net profit pool as management bonus to employees – management bonus for the period rose to HK\$51.1 million (1H 2016: HK\$21.2 million). The profit pool is derived by deducting certain adjustments, including fair value changes from the Group’s seed capital investments, investments in own funds and other investments, from net profit before management bonus and taxation. Discretionary bonus was maintained as it promotes staff loyalty and performance while aligning employee interests with shareholders’.

Meanwhile, staff of Value Partners are entitled to partial rebates of management fees and performance fees when investing in funds managed by the Group. Staff rebates for the period amounted to HK\$2.1 million (1H 2016: HK\$0.9 million).

During the period, the Group recorded expenses of HK\$12.3 million (1H 2016: HK\$44.1 million) relating to stock options granted to employees. This expense item had no impact on cash flow and was recognized in accordance with Hong Kong Financial Reporting Standards.

Other expenses

Other non-staff operating costs, such as rents, legal and professional fees, investment research fees, as well as other administrative and office expenses, stood at HK\$42.0 million for the period (1H 2016: HK\$40.9 million), while sales and marketing expenses decreased to HK\$6.4 million (1H 2016: HK\$9.1 million).

Dividends

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

Liquidity and financial resources

Fee income is the Group's main source of income while other income sources include interest income generated from bank deposits and dividend income from investments held. During the period, the Group's balance sheet and cash flow positions remained strong with a net cash balance of HK\$2,568.0 million. Net cash inflows from operating activities amounted to HK\$103.5 million, and the Group had no bank borrowings and did not pledge any assets as collateral for overdrafts or other loan facilities. The Group's debt-to-equity ratio (interest-bearing external borrowings divided by shareholders' equity) was zero while current ratio (current assets divided by current liabilities) was 12.7 times.

Capital structure

As at 30 June 2017, the Group's shareholders' equity and total number of shares in issue for the Company were HK\$3,786.3 million and 1.85 billion, respectively.

1. *Overall fund performance is calculated by taking an asset-weighted average of returns of the most representative share class of all funds managed by Value Partners.*
2. *As of 30 June 2017. Refer to footnote 1 on page 15.*
3. *Performance of Value Partners High-Dividend Stocks Fund (Class A) as at 30 June 2017, in USD, NAV to NAV, with dividend reinvested and net of fees. Annual performance over the past five years: 2012: +25.2%; 2013: +8.1%; 2014: +9.4%; 2015: -3.7%; 2016: -0.2%; 2017 (Year to date as at 30 June): +18.2%.*
4. *Authorization by the Securities and Futures Commission is not a recommendation or endorsement of a scheme nor does it guarantee the commercial merits of a scheme or its performance. It does not mean the scheme is suitable for all investors nor is it an endorsement of its suitability for any particular investor or class of investors.*

Source for performance figures: HSBC Institutional Trust Services (Asia) Limited and Bloomberg. Past performance is not indicative of future performance.

OTHER INFORMATION

Events after the reporting period

Attention is drawn to the Company's announcement dated 22 May 2017 made pursuant to Rule 3.7 of The Code on Takeovers and Mergers (the "Takeovers Code"), Rule 13.09 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Inside Information Provisions (as defined in the Listing Rules) under Part XIVA of the Securities and Futures Ordinance and the announcements made pursuant to Rule 3.7 of the Takeovers Code dated 22 June 2017 and 21 July 2017 (the "Announcements"). As disclosed in the Announcements, the Company was informed by Dato' Seri Cheah Cheng Hye (Chairman, a Director and Co-Chief Investment Officer of the Company, indirectly holding 461,201,312 ordinary shares of the Company, representing approximately 24.9% of the issued share capital of the Company, and outstanding options to subscribe for up to 56,620,000 Shares) and Mr. Yeh V-Nee (a Non-Executive Honorary Chairman of the Company, indirectly holding 298,805,324 ordinary shares of the Company, representing approximately 16.14% of the issued share capital of the Company) (collectively, the "Relevant Shareholders") that they had been approached by third parties and were in discussions with a potential offeror (the "Potential Offeror") and the Relevant Shareholders and the Potential Offeror signed a non-binding memorandum of understanding on 24 January 2017 in respect of a possible transaction involving an acquisition of interests in the Company by the Potential Offeror (the "Possible Transaction"). As at the date of this announcement, the discussion is still in progress and the Relevant Shareholders have not entered into any definitive agreement with the Potential Offeror in relation to the Possible Transaction and the Possible Transaction may or may not proceed.

In compliance with Rule 3.7 of the Takeovers Code, monthly announcement(s) setting out the progress of the aforesaid discussions are made until announcement of firm intention to make an offer under Rule 3.5 of the Takeovers Code or of a decision not to proceed with an offer is made. Further announcement(s) will be made by the Company as and when appropriate or required in accordance with the Listing Rules and the Takeovers Code (as the case may be).

Dividends

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2017 (six months ended 30 June 2016: Nil).

Foreign exchange

Except for its Renminbi-denominated bank deposit and loan portfolio in China, which has a balance of around HK\$298.4 million as at 30 June 2017 (30 June 2016: HK\$539.9 million), the Group has no significant foreign currency exposure because the majority of receipts and payments as well as assets and liabilities are denominated in the Hong Kong dollar (the Company's functional and presentation currency) and the United States dollar, which is linked to the Hong Kong dollar.

Human resources

As at 30 June 2017, the Group employed a total of 189 staff (30 June 2016: 205) in Hong Kong and Shanghai, 11 staff (30 June 2016: 10) in Singapore, 2 staff (30 June 2016: Nil) in United Kingdom, 13 staff (30 June 2016: 17) in Taiwan and 52 staff (30 June 2016: 79) in Chengdu. Remuneration packages that take into account of business performance, market practices and competitive market conditions are offered to employees in compensation for their contribution. In addition, share options are granted and discretionary bonuses are also given based on the Group's and individual staff's performances.

Purchase, sale or redemption of the Company's securities

Neither the Company nor any of its subsidiaries have purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2017.

Audit committee

In compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), the Company has an audit committee which comprises three Independent Non-executive Directors. The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including a review of the unaudited interim results of the Group for the six months ended 30 June 2017.

Independent review of interim results

The unaudited interim results of the Group for the six months ended 30 June 2017 have been reviewed by the Company's external Auditor in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity".

Corporate governance

The Company is committed to maintaining high standards of corporate governance. As corporate governance requirements change from time to time, the Board periodically reviews its corporate governance practices to meet the rising expectations of shareholders and to comply with increasingly stringent regulatory requirements. In the opinion of the Directors, the Company applied the principles and complied with the relevant code provisions in the Corporate Governance Code as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2017.

Model Code for securities transactions by Directors

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

The Company has made specific enquiry with all Directors and all of them confirmed that they have complied with the required standard set out in the Model Code for the six months ended 30 June 2017.

Publication of interim results and interim report on the Stock Exchange

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

Our appreciation

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

By order of the board of
Value Partners Group Limited
Dr. AU King Lun MH, Ph.D
Chief Executive Officer and Executive Director

Hong Kong, 15 August 2017

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