



2017

ANNUAL REPORT
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

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Corporate profile

Value Partners Group is one of Asia's largest independent asset management firms that seeks to offer world-class investment services and products. Assets under management of the firm stood at US\$16.6 billion as of 31 December 2017. Since its establishment in 1993, the firm has been a dedicated value investor in Asia and the world. In November 2007, Value Partners Group became the first asset management firm to be listed on the Main Board of the Hong Kong Stock Exchange (Stock code: 806 HK). In addition to its Hong Kong headquarters, the firm operates in Beijing, Shanghai, Shenzhen, Singapore and London. Value Partners' investment strategies cover equities, fixed income, Quantitative Investment Solutions, SMART Investment Strategy, multi-asset and alternatives for institutional and individual clients in Asia Pacific, Europe and the United States.

7 facts **about Value Partners**

US\$**16.6** billion⁽¹⁾
assets under management

170+
top performing awards and
prizes since establishment

2,500
company visits and
research meetings every
year

15.7%
annualized return and
3,587.8% cumulative
return since launch
in 1993 for Value
Partners Classic Fund
(A Units)⁽²⁾

About **70**
investment
professionals focusing
on Greater China and
Asia investments

2017
Management Firm of
the Year⁽³⁾

25 years
of history weathered
various financial crises
regionally and globally

Footnote:

(1) As of 31 December 2017.

(2) As of 31 December 2017. Performance of Value Partners Classic Fund (A Units), in USD, NAV to NAV, with dividend reinvested and net of fees. Annual performance over the past five years:
2013: +11.2%; 2014: +13.5%; 2015: -1.5%; 2016: -3.2%; 2017: +44.9%; 2018 (Year to date as at 28 February): +4.5%.

(3) Refer to "Management Firm of the Year" awarded by *AsiaHedge Awards* 2017.

Corporate information

Board of Directors

Chairman and Co-Chief Investment Officer

Dato' Seri CHEAH Cheng Hye

Executive Directors

Mr. SO Chun Ki Louis

(Deputy Chairman and Co-Chief Investment Officer)

Dr. AU King Lun MH, PhD

(Chief Executive Officer)

Ms. HUNG Yeuk Yan Renee

(Deputy Chief Investment Officer)

Independent Non-executive Directors

Dr. CHEN Shih-Ta Michael

Mr. LEE Siang Chin

Mr. Nobuo OYAMA

Non-executive Honorary Chairman

Mr. YEH V-Nee

Company Secretary

Mr. CHEUNG Kwong Chi, Aaron

Authorized Representatives

Dr. AU King Lun MH, PhD

Mr. CHEUNG Kwong Chi, Aaron

Members of the Audit Committee

Mr. LEE Siang Chin *(Chairman)*

Dr. CHEN Shih-Ta Michael

Mr. Nobuo OYAMA

Members of the Nomination Committee

Dato' Seri CHEAH Cheng Hye *(Chairman)*

Dr. AU King Lun MH, PhD

Dr. CHEN Shih-Ta Michael

Mr. LEE Siang Chin

Mr. Nobuo OYAMA

Members of the Remuneration Committee

Dr. CHEN Shih-Ta Michael *(Chairman)*

Dato' Seri CHEAH Cheng Hye

Mr. LEE Siang Chin

Mr. Nobuo OYAMA

Mr. SO Chun Ki Louis

Members of the Risk Management Committee

Dr. AU King Lun MH, PhD *(Chairman)*

Mr. Roger Anthony HEPPER

Ms. LEE Vivienne

Mr. MO Chun Wah, Jonathan

Mr. SO Chun Ki Louis

Ms. WONG York Ying, Ella

Registered Office

Cricket Square, Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

Principal Office

9th Floor, Nexus Building

41 Connaught Road Central

Hong Kong

Cayman Islands Principal Share Registrar and Transfer Office

SMP Partners (Cayman) Limited

Royal Bank House-3rd Floor

24 Shedden Road, P.O. Box 1586

Grand Cayman, KY1-1110

Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

Tricor Investor Services Limited

Level 22, Hopewell Centre

183 Queen's Road East

Hong Kong

Auditor

PricewaterhouseCoopers

Legal Advisor

Reed Smith Richards Butler

PRC Legal Advisor

LLinks Laws Offices

Principal Bankers

The Hongkong and Shanghai Banking Corporation Limited

Bank of China (Hong Kong) Limited

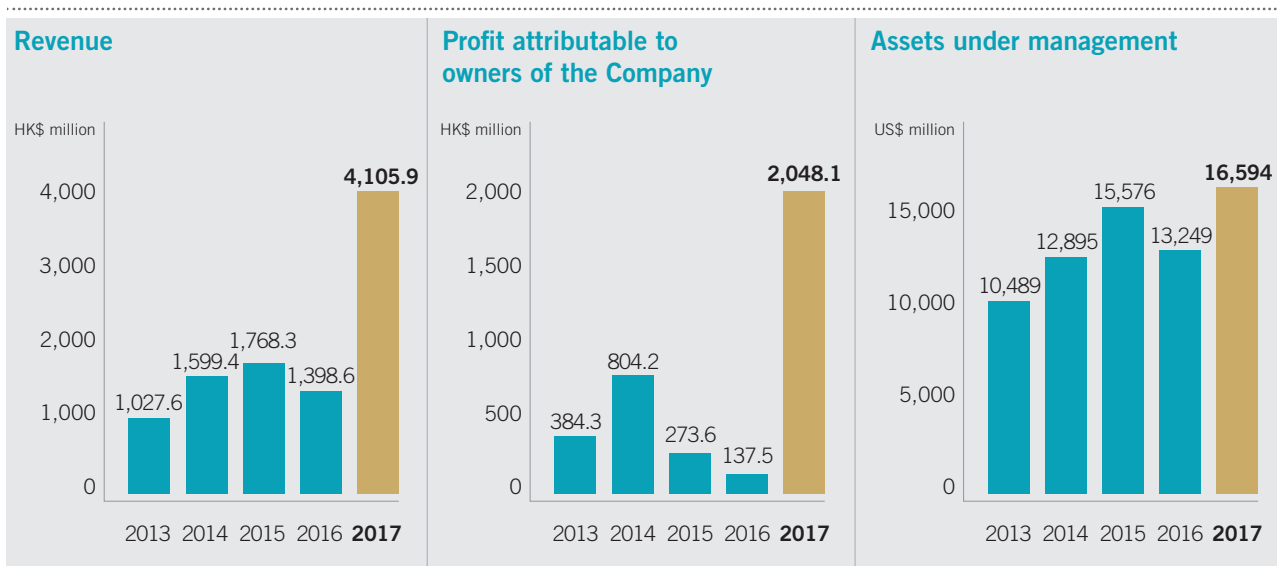
Website

www.valuepartners-group.com

Stock Code

Stock Exchange of Hong Kong: 806

Financial highlights



(In HK\$ million)	Results for the year ended 31 December					
	2017	2016	% Change	2015	2014	2013
Revenue	4,105.9	1,398.6	+193.6%	1,768.3	1,599.4	1,027.6
Operating profit (before other gains/losses)	2,207.3	197.8	+1,015.9%	514.0	749.6	468.2
Profit attributable to owners of the Company	2,048.1	137.5	+1,389.5%	273.6	804.2	384.3
Earnings per share (HK cents)						
– Basic	110.6	7.4	+1,394.6%	14.8	45.4	21.9
– Diluted	110.5	7.4	+1,393.2%	14.8	45.3	21.8

(In HK\$ million)	Assets and liabilities as at 31 December					
	2017	2016	% Change	2015	2014	2013
Total assets	6,878.0	3,957.0	+73.8%	4,265.8	4,362.6	3,080.5
Less: Total liabilities	1,238.0	196.4	+530.3%	405.3	476.4	251.8
Total net assets	5,640.0	3,760.6	+50.0%	3,860.5	3,886.2	2,828.7

(In US\$ million)	Assets under management ("AUM") as at 31 December					
	2017	2016	% Change	2015	2014	2013
AUM	16,594	13,249	+25.2%	15,576	12,895	10,489

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

Highlights of the year

Major awards

In 2017, we won **27 new awards** to extend our list of accolades to **170 titles** since our company's founding in 1993. The new awards recognize our excellence in asset management, particularly our capabilities in equity and fixed income investing. The success of Value Partners is underpinned by the strong team work of our closely-knit Investment Management Team, which consists of about 70 fund managers and analysts. It is an exciting time for Value Partners as we grow our investment capabilities and global footprint to transform into Asia's world-class asset management company.

AsiaHedge Awards 2017

Value Partners was bestowed the prestigious title of **Management Firm of the Year**, while our flagship **Classic Fund** was named **Best Asia ex-Japan Fund**. The AsiaHedge Awards recognize the best risk-adjusted performers in the Asia-Pacific hedge fund industry.



Asian Private Banker's Asset Management Awards for Excellence 2017

Value Partners was named **Best Fund Provider – Greater China Equity** for the second consecutive year by *Asian Private Banker*, a prestigious industry publication for Asia's private banking community.



Our Managing Director of Private Banking Ms. Vicky YICK (left) and Managing Director of Intermediary Business Mr. Wallace TSANG (right) accepted the award at the presentation ceremony.

Benchmark 2017 Fund of the Year Awards

Our **Co-Chief Investment Officers Dato' Seri CHEAH Cheng Hye** and **Mr. Louis SO** were named **Outstanding Manager of the Year under the Greater China Equity category**, and our **Chief Investment Officer for Fixed Income Mr. Gordon IP** was named **Manager of the Year under the High Yield Fixed Income category**. We were also awarded an **ETF house award** and a **performance award** for the **Greater China High Yield Income Fund**.



Our award winners and senior executives attended the awards ceremony and shared the great moment together.

The 15th China's Financial Annual Champion Awards

Value Partners Group was named the **Best Fund House** at the 15th China's Financial Annual Champion Awards organized by Hexun, one of China's largest financial information portals.



HFM Asia Performance Awards 2017

We scooped up 3 coveted industry awards at the HFM Asia Hedge Fund Performance Awards 2017, including **Fund of the Year 2017** and **Best Greater China fund over US\$500 million** for our **Classic Fund**, and **Best Fixed Income Fund** for our **Greater China High Yield Income Fund**.



Our Singapore Country Head and Investment Director Mr. Kenny TJAN (center) accepted the performance awards.

Highlights of the year

Major awards

2017 HKCAMA* – Bloomberg Offshore China Fund Awards

Our **Greater China High Yield Income Fund** was awarded the **Best Total Return – Greater China Fixed Income** (both for 1-year and 3-year periods) and **AUM Growth – Greater China Fixed Income (1 Year)** awards, while our **Greater China Preference Shares Income Fund** won the **AUM Growth – Greater China Equity (1 Year)** award. Our **Chinese Mainland Focus Fund** and **Global Contrarian Fund** were named **Best Total Return – Greater China Equity (1 Year) – 2nd Runner-Up** and **Best Total Return – Multi-Asset Allocation (1 Year) – 2nd Runner-Up**, respectively.

In addition, our **China A-Share ETF** was awarded the **Best Tracking Error (ETF) – First Runner-up** award.

Listed Company Award of Excellence 2017

Value Partners Group was named a **Best Listed Company (Main Board category)** by *Hong Kong Economic Journal* & PR Asia for its stellar performance.



Our Chief Executive Officer Dr. AU King Lun accepted the award from the organizer.

The Asset Triple A, Asset Servicing, Investor and Fund Management Awards 2017

Our **Chief Investment Officer for Fixed Income Mr. Gordon IP** was named **Fund Manager of the Year – Long-only Fixed Income (Highly Commended)**.



Mr. Gordon IP accepted the award at the presentation ceremony.

The Asset Benchmark Research Awards 2017 – Asian G3 Bonds

Value Partners topped the **Hedge Fund category** of The Asset Benchmark Research's **Top Investment House in Asian G3 Bonds for 2017**, improving on our rankings for the previous two years. Three members from our fixed income investment team were also named among the **Most Astute Investors** in this annual raking.



Asset Benchmark Research
Top Investment Houses in Asian G3 Bonds for 2017

Our most Astute Investors in Asian G3 Bonds in Hong Kong 2017 were Mr. Edwin KAM (ranked 3rd), Mr. Gordon IP (ranked 10th) and Ms. Elaine HU (ranked 20th).

Thomson Reuters Lipper Fund Awards 2017

Our **High-Dividend Stocks Fund** was awarded the **Best Asia Pacific ex-Japan Equity (10 Years)** award for its consistent long-term performance over the years, while our **Greater China High Yield Income Fund** scooped up the **Best Bond US Dollar – High Yield (3 Years)** award.



Mr. Gordon IP (center) and our Senior Fund Manager Mr. Philip Li (right) received the two prestigious awards together.

* HKCAMA is the abbreviation for Chinese Asset Management Association of Hong Kong.

Highlights of the year

Public speeches and industry contributions

Our Chairman is appointed an Independent Non-executive Director of HKEx

Our **Chairman and Co-Chief Investment Officer Dato' Seri CHEAH Cheng Hye** has been serving as an Independent Non-executive Director of Hong Kong Exchanges and Clearing Limited ("HKEx") since April 2017. As a fund manager and a business leader from the asset management industry, Dato' Seri CHEAH would add value by sharing perspectives on what global investors are looking for in a world-class stock exchange.

**Our CEO is appointed an Index Advisory Committee Member of the Shanghai Stock Exchange and the China Securities Index Co., Ltd.**

As a committee member, our **Chief Executive Officer Dr. AU King Lun** contributes professional suggestions and advice on the evaluation, consultation and examination of CSI Index methodologies. He also advises on index operation and business development issues.

**Forbes Global CEO Conference in Hong Kong**

On a panel titled Money Matters, **Dato' Seri CHEAH** discussed key trends that are shaping the financial services landscape, including the growth of FinTech.

**Signed a strategic partnership MOU with Forbes**

On 27 September 2017, Value Partners announced the signing of a non-binding Memorandum of Understanding ("MOU") with Forbes Global Capital Limited. The two partners will explore ways to collaborate in the development of certain Forbes-branded financial products that may be offered to investors. Value Partners will leverage on Forbes' global partners around the world to enhance its outreach and footprint in international markets.

Morningstar Institutional Conference 2017 in Hong Kong

Dato' Seri CHEAH was a keynote speaker at the event, where he shared his personal journey of building his investing career and co-founding Value Partners.



Highlights of the year

Public speeches and industry contributions

Financial Services Development Council's press conference

Dr. AU (first from the right) together with other Council members, unveiled two reports to the public in May 2017. The reports analyse Hong Kong's FinTech positioning compared with a number of other jurisdictions that are also active in this space and give an account of the benefits and challenges introduced by Distributed Ledgers Technology for the financial services industry.



Hong Kong Symposium in Kuala Lumpur

Our **Investment Director Mr. CHUNG Man Wing** was invited to speak at the In Style • Hong Kong Symposium Conference to promote Hong Kong as an international financial center and discuss opportunities for Malaysian businesses. This conference was co-organized by Hong Kong Trade Development Council and the Hong Kong Financial Services Development Council.



Tsinghua PBCSF Belt and Road EMBA Program for Southeast Asia

Dato' Seri CHEAH gave a speech at the program's opening ceremony in May 2017 in Beijing.



HKSFSA Best Research Report Competition

Dato' Seri CHEAH was featured in Hong Kong Society of Financial Analysts' ("HKSFSA") Best Research Report Competition video. The aim of the competition was to raise the standard of practice and uphold the ethical standards of the Hong Kong financial services industry. Our **Deputy Chairman and Co-Chief Investment Officer Mr. Louis SO** was one of the final round judges.



Highlights of the year

Public speeches and industry contributions

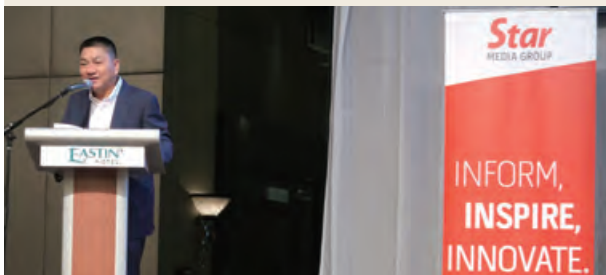
Kellogg-HKUST Executive MBA Graduation

Dato' Seri CHEAH was invited to deliver a keynote speech at the graduation ceremony in July 2017. The Kellogg-HKUST EMBA has been ranked No. 1 in the world seven times in the past 10 years by the *Financial Times*.



The Star's Power Talks 2017 in Kuala Lumpur

Dato' Seri CHEAH shared how his passion for exploring different fields has helped to make him a successful fund manager. This event was attended by more than 300 Malaysia-based entrepreneurs.



Asia Asset Management's Taiwan ETF Forum

Our **Co-Managing Director of Quantitative Investment Solutions Mr. David QUAH** was one of the panelists that shared insights on "Effective Trading Strategies Using ETFs".



Funds Global Asia's conference in Hong Kong

Dr. AU was interviewed on stage at the conference's CEO Perspective section. He emphasized that the opening of China's capital markets presented a "once-in-a-lifetime opportunity" for Value Partners, which has the opportunity to present itself as a bridge between the rapidly growing Chinese economy and the rest of the world.



AsiaHedge Forum 2017

This forum is a unique one-day event that allows leading hedge fund managers and investors to meet and explore topical matters. Speaking on a panel on quantitative investing, **Mr. QUAH** talked about the quantitative approach and the use of big data. AsiaHedge published a feature story on Value Partners' quantitative solutions and big data applications after the event.



Value Partners blends fundamental culture with quant investing as it beefs up big data and machine learning

Big data and quantitative investing are taking on increasingly important roles at the Hong Kong-basedquartered Value Partners Group as the asset manager beefs up its "quantitative" focus that seeks to blend its long-established fundamental-based investing culture with quant techniques.

While the new joint onset headed by James Miao, co-CEO, David QUAH and long-time Value Partners professional Kai Mak, only started operating in August, Value Partners is no stranger to quant-driven investing — having launched several smart beta products over the years that combine its stock-picking skills with automated index investing. Three years ago, the firm tested a big data hedge fund to build its capability in using alternative data resources to generate more alpha.

The move to inject a more



which has been spent in the development of quant-like products at the firm.

QUAH said the company had been engaged in developing quantitative investing capabilities as far back as 2009 with the listing of a smart beta ETF named Value Partners China ETF in Hong Kong. Earlier this year the firm reduced management fees to make the Value ETF more attractive for institutional investors.

Kai said the company's smart beta ETFs — investing Japan, Taiwan and Korea — also demonstrate how the group has explored ways to combine its stock-picking skills with index investing.

In early August Value Partners launched a Global Emerging Market (GEM) equity fund applying the so-called quantitative new strategy under the firm's

Highlights of the year

Corporate social responsibility (“CSR”) programme

Value Partners Group is committed to good corporate citizenship. We contribute to society by sponsoring educational projects and a wide range of charitable initiatives. Our Recreation Committee arranged a good mix of outdoor and indoor activities for colleagues who are sports fans and nature lovers. To help colleagues achieve their professional goals, our Human Resources Team also organized training workshops and team-building exercises. In addition to participating in financial industry activities, we encourage our employees to take part in community service and contribute to the community. Our activities to engage with and support the community are steered by our Recreation Committee and guided by our Human Resources team.

In the past year, we have been supporting children and youth with special education needs. Internally, we have also enhanced our staff benefits through staff activities and tailor-made facilities. To create an environmentally friendly workplace, we have also implemented a number of measures to promote recycling and energy conservation.

Value Partners supports Money Month campaign

To encourage members of the public to learn about money management, and ultimately make informed and responsible financial decisions, Hong Kong launched its first financial education campaign “Money Month” in February 2017. Our **Chief Executive Officer Dr. AU King Lun** attended the launch ceremony of the campaign, and we also promoted the campaign on our website and newsletter during the month.



HKUST Fellowship Program talk

Value Partners has been working with the Hong Kong University of Science and Technology to nurture young talents for the asset management industry. Representatives from our investment management and business teams attended a career seminar and shared their experience and advice for the university students.

Value Partners sponsors “Big Data for Business (B4B) Challenge” campaign



This campaign aims to enhance Hong Kong's awareness of the distinct value and impact of big data, as well as grooming young talents for the industry. Our **Senior Fund Manager and Co-Managing Director Mr. Kai MAK** joined the panel discussion at the launch ceremony and participated in the mentorship programme. We were presented with Certificates of Appreciation for supporting the campaign.



Highlights of the year

Corporate social responsibility (“CSR”) programme

HKGCC Free Ride Day

The Hong Kong General Chamber of Commerce organized its seventh “Free Ride Day” campaign to celebrate its 156th anniversary and the 20th anniversary of the HKSAR. Value Partners was among the Hong Kong companies that participated in this charity event, which is expected to benefit 300,000 people.



Volunteer day



We attended the Expressive Art Fun Day organized by Heep Hong Society and had a great time with children with special education needs.



Flag Selling day

We and family members took part in a Flag Selling day fundraising event organized by the Society for the Welfare of the Autistic Persons.



Walk for Millions 2018

Our staff participated in the Community Chest’s “Walk for Millions”, one of the major charitable events in Hong Kong which aims to support the underprivileged. 100% of the funds raised will be designated to maintain and strengthen family bonding and to assist the family members establishing mutual support.

Value Partners named Caring Company

We have been named a “Caring Company” in Hong Kong the 2nd year since 2016, recognizing our commitment to the community, our employees and the environment.



Highlights of the year

Corporate social responsibility (“CSR”) programme

Deutsche Bank Hong Kong Soccer Sixes Tournament

Value Partners’ football team competed in the Soccer Sixes Tournament this year again.



Team building workshop

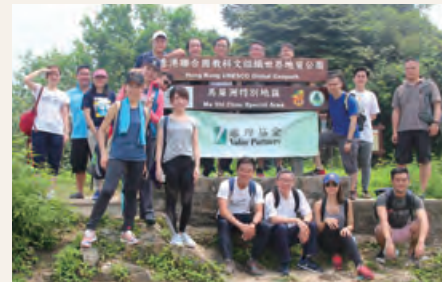


Strong teamwork is a key pillar of the culture at Value Partners. To foster understanding and collaboration among our staff, some of our colleagues took part in a one-day workshop – “Team for Embracing Change”.



Hiking day

To encourage our staff to lead active lifestyles, our Recreation Committee organized a hike at Ma Shi Chau Nature Trail in Taipo.



Family day

Family day is one of Value Partners’ corporate traditions.

25th Anniversary staff dinner

In our annual celebration, the senior management took this special opportunity to celebrate the firm’s 25th anniversary with all staff members from Hong Kong, Beijing, Shanghai, Shenzhen, Singapore and London.



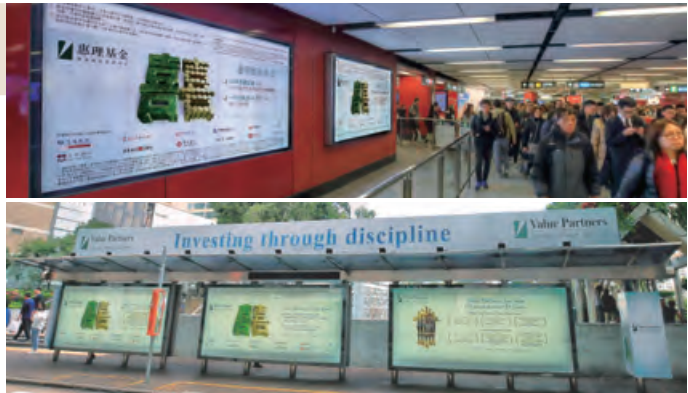
Highlights of the year

Major marketing campaigns and client events

During the year, we rolled out several major marketing campaigns to strengthen brand awareness.

Promotional campaign for our flagship Classic Fund

We have further enhanced the Value Partners Classic Fund by offering new income distribution classes for our investors. Since 2017, we launched a series of advertising campaigns in Hong Kong to promote the fund's performance and its new features. We adopt a Chinese character creative "囍", which means "double happiness", to highlight the value and income potential offer by the fund.



We launched a new Asian Income Fund in November 2017 that aims to optimize returns and income against portfolio volatility

Value Partners Asian Income Fund is authorized for public distribution in Hong Kong and targets investors who are looking to capture the strong growth and income potential of Asian assets while seeking low portfolio volatility. There was local press coverage highlighting the key features of the fund as well as the views and insights shared by our **Senior Fund Manager Ms. Kelly CHUNG** and **Managing Director of Intermediary Business Mr. Wallace TSANG**.

Value Partners' private equity real estate business

In July 2017, we established our first private equity real estate fund. This fund owns two logistics centers in Japan that are easily accessible via major transportation networks. One of the properties, Higashi Matsuyama, displays the Value Partners brand.



Value Partners Investment Outlook Luncheon 2018

Our investment experts gathered at our annual investment outlook seminar for investors and key business stakeholders to discuss strategies and investment opportunities in the Asia and China markets. Our key speakers were (from right to left) **Ms. Kelly CHUNG**, **Mr. Gordon IP**, **Mr. Louis SO** and **Mr. YU Xiaobo** (our Investment Director and Head of China Business).

Highlights of the year

Major marketing campaigns and client events

We also conducted various events with distributors to reinforce sales effort in Hong Kong and select countries.

Outlook conferences



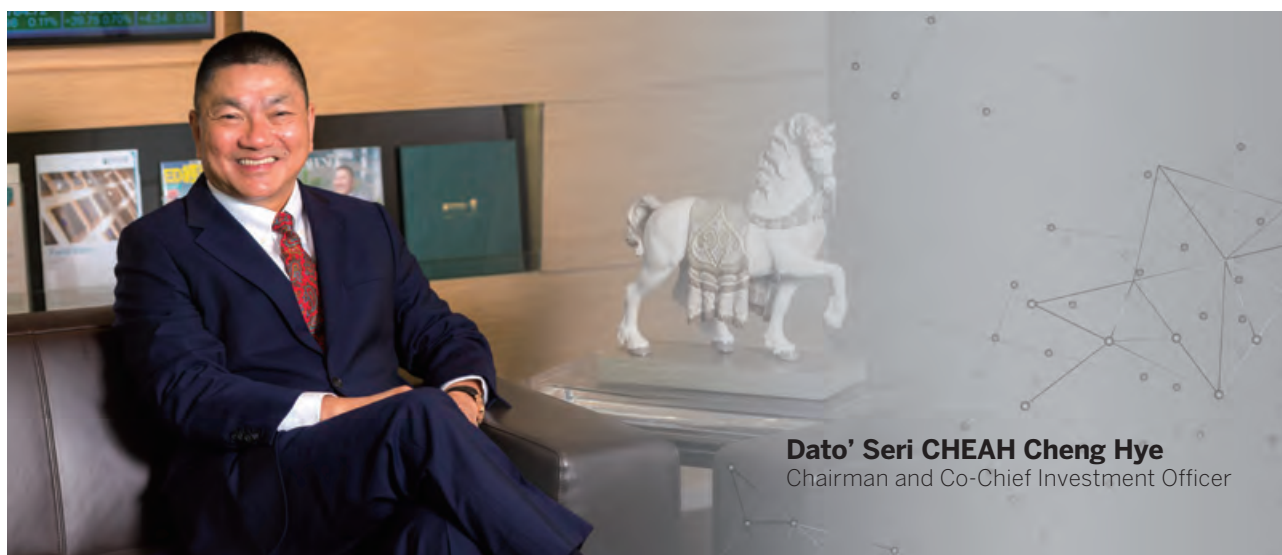
Investment expos



New product launch



Chairman's Statement



Dato' Seri CHEAH Cheng Hye
Chairman and Co-Chief Investment Officer

Value Partners' net profit in 2017 was the highest in its history – reaching HK\$2 billion, compared with just HK\$138 million in 2016. That's an increase of 13.9 times year on year. It's a huge bounce but, frankly, it shouldn't be too much of a surprise. We had foreseen the recovery prospects (the 2016 Chairman's Statement stated that 2016 represented a "cyclical bottom"), and going into 2017, our fund managers bought aggressively with their usual quality bottom-up research, resulting in a harvest even better than the market overall. Since 2017 was the best year in the past eight years for Asia-Pacific markets, this out-performance of out-performing the markets was no mean feat.

Taking our flagship Value Partners Classic Fund (size: US\$1.57 billion) as an example, the fund returned a net 44.9%¹ in 2017, ahead of the 40.1% increase recorded by the Hang Seng Index. (And of course, the fund's credentials go far beyond a single year: launched in April 1993, Classic Fund has achieved a net return, compounded, of 15.7% per annum since inception, compared with the Hang Seng's annualized return of 8.3% over the same period. Classic Fund has recorded a profit in 18 and a loss in seven of its 25 years in existence.)

The key message here, though, isn't about a single harvest; it's about how Value Partners is positioned to benefit repeatedly from market and business opportunities in the Asia-Pacific region as they arise in the future. Our brand has become associated with fund performance and we are among the very biggest independent asset management firms in our region, and the only one of its kind listed on the Hong Kong Stock Exchange. Among Asia's independent brands, we are one of the few to have developed our own in-house operational infrastructure, and this is another source of competitive advantage.

Certainly, a celebration is called for. From our 2017 profit, we declared a special 25th anniversary dividend of 86 HK cents per share (paid in February 2018) and we are also proposing a final dividend of 18 HK cents per share, for a total dividend of 104 HK cents, well ahead of 2016's total dividend of 12 HK cents per share. Since Value Partners is cash-rich with no debt, we can well afford this generous dividend, which amounts to a payout of 94% of basic earnings per share in 2017 of 110.6 cents.

For a more detailed discussion of the Group, please refer to the accompanying report from our Chief Executive Officer ("CEO"). Highlights in our CEO's report include the outstanding success of our fixed income business, further advances in business development on the Chinese mainland and industry recognition in the form of 27 new performance awards received, bringing our total collection of awards to 170. Assets under management reached US\$16.6 billion.

Chairman's Statement

Outlook

For 2018, we expect very volatile markets, and we are cautious. China-related stocks, trading at about 12.5 times forward earnings, remain reasonably priced, especially when Chinese companies are enjoying double-digit earnings growth. But in many parts of the world, stocks do look expensive, and investors seem too complacent, at a time when interest rates are trending up. We also worry about rising tensions in the Sino-American trade relationship. Investing mainly in the Asia-Pacific region, however, we would expect any setback to be temporary, as the region's economic fundamentals remain robust, with new sources of growth available for use.

Indeed, we stick to our view that Asian fund managers like Value Partners are entering a Golden Age. The mainland Chinese public, with the world's biggest pool of savings, are clearly looking to diversify their investments. We think this could be one of the biggest business opportunities ever seen in the history of asset management.

Now it's a matter of "when," not "if," the Chinese authorities would proceed further with deregulation and market-opening. Currently, the government is preoccupied with stabilizing the domestic financial system, with no-nonsense measures that include closing down unauthorized lending channels, restricting "shadow banking" activities and curbing irregularities. This difficult but critical campaign to strengthen the foundations has slowed down the market-access programme, but we think we don't have much longer to wait.

What we see with the Chinese mainland is a lot of money requiring professional management and, over time, huge surges in capital flows, both domestic and overseas, as well as further emphasis on ownership rights, the role of markets and the rule of law. To achieve the national ambition of becoming a fairly developed country by the early 2020s, China knows it needs efficient markets. Savings need to be channelled into investments, not wasted, while social stability can be enhanced by improving access to better quality investment choices.

In a sense, Value Partners has spent the last 25 years preparing for this "Big Bang."

Appreciation

To the many clients, shareholders and service providers who have supported and encouraged us, we shall always be grateful. Very importantly, may I express special thanks and recognition to the many outstanding people we have on our staff, who are a key part of the Value Partners success story. Value Partners currently has 211 employees, all of them sharing a culture that emphasizes making a difference.

Dato' Seri CHEAH Cheng Hye

Chairman and Co-Chief Investment Officer

1. *Performance of Value Partners Classic Fund (A Units) as of 31 December 2017, in USD, NAV to NAV, with dividend reinvested and net of fees. Annual performance over the past five years: 2013: +11.2%; 2014: +13.5%; 2015: -1.5%; 2016: -3.2%; 2017: +44.9%; 2018 (Year to date as at 28 February): +4.5%.*

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

Report of the Chief Executive Officer

Positioning for the future

2017 was a year of not only record profitability but also transformation as we took a number of major first steps towards our strategic goal of becoming an Investment Solutions Provider to Chinese investors and a China Investment Expert to investors around the world. Last November, Value Partners became the first Hong Kong-headquartered asset manager to be granted a private fund management (“PFM”) license by the Asset Management Association of China (“AMAC”), which significantly deepened our access to the burgeoning wealth management market in Mainland China. We also strengthened our distribution network, diversified our product suite with new funds and asset classes and streamlined our business operations in 2017.

As we celebrate our 25th Anniversary in 2018, we look back with pride that Value Partners has grown from a single fund with an AUM of just US\$5.6 million to one of Asia’s largest independent asset managers with an AUM of US\$16.6 billion (as of December 2017) invested across a family of funds spanning equities, fixed income, multi-asset, alternatives and quantitative investment solutions. We added 27 awards last year to take our grand total of performance accolades won throughout the years to 170. The growth we have enjoyed over the past 25 years would not have been possible without the support of our shareholders, clients, business partners and colleagues.

Financial highlights

In 2017, Asia ex-Japan stock markets delivered their best performance in eight years on the back of a recovery in corporate earnings and synchronized global growth. Against this favorable backdrop, our AUM recovered strongly, rising 25% to US\$16.6 billion as of 31 December 2017 compared to a year earlier.

We recorded our highest-ever profit attributable to owners of the Company of HK\$2.0 billion in 2017 (2016: HK\$138 million). The steep jump in our earnings was mainly due to a surge in net performance fees compared to a year earlier as most of our funds that charge performance fees finished 2017 well above their high water marks. To mark our 25th Anniversary and to thank our shareholders for their continued support, Value Partners has distributed a special dividend of HK86.0 cents per share.

Despite the record profitability, Hong Kong asset managers including Value Partners continued to be pressured by net outflows from traditional equity products. According to data from the Hong Kong Investment Funds Association, Asia ex-Japan equity funds suffered an industry-wide net outflow of US\$1.9 billion in 2017, while Greater China equity funds¹, experienced an industry-wide net outflow of US\$820 million. We recorded a net outflow of US\$278 million across all strategies in 2017. This unfavorable industry trend adds to the importance of securing new growth drivers by expanding our product capabilities and distribution network.

As our business grows, we continue to strictly apply stringent cost controls. Our fixed cost coverage ratio (net management fees divided by fixed costs) for 2017 was 2.3 times (2016: 2.1 times).

Report of the Chief Executive Officer

Product suite expansion

Value Partners has been growing its product offerings over the years to help our clients meet their evolving investment needs and to diversify our revenue base.

We established a private equity real estate platform in mid-June to capture opportunities in the Asia-Pacific region. Within six months, the platform had acquired two logistics centers in Japan and invested in a majority interest in a Grade A office building in Sydney, Australia. Despite being a newcomer to the field, the platform has already built a solid track record and has attracted prominent Hong Kong real estate investor and developer Liu Chong Hing Investment as a co-investor for the two logistics centers in Japan.

In light of growing demand among our client base for investment solutions that provide diversification, we have broadened the geographic coverage of our product suite with the launch of two new global emerging market (“GEM”) funds – one focused on fixed income and one focused on equities. At the same time, we have strengthened the investment research capabilities of our Singapore and London offices, which serve as hubs for on-the-ground regional research.

While equity products still account for the bulk of our AUM, we continue to add to our fixed income and multi-asset offerings, which have thrived in recent years.

Fixed income is now a significant asset class for the Group, accounting for 30% of total AUM. In 2017, our flagship Greater China High Yield Income Fund (“GCHY”) recorded US\$2.3 billion of net inflow and delivered a return of 10.1%², outperforming the JP Morgan Asia Credit Index by 4.3 percentage points. At an AUM of US\$4.5 billion as of 31 December 2017, the GCHY is now one of the largest funds of its category in Hong Kong. In light of the success of GCHY, we have expanded the risk profile and geographic coverage of our fixed income product suite to meet strong investor demand for income. In addition to the GEM Bond Fund, we also launched an Asian high yield fixed maturity bond fund for private banking clients and an Asian fixed income hedge fund for professional investors in 2017. We are launching another fixed income product in the first half of 2018 and will continue to broaden our offerings in this segment as investor demand continues to grow.

Leveraging on the success of our multi-asset strategy over the past two years, we partnered exclusively with AIA to launch a new fund under its AIA MPF – Prime Value Choice Scheme. The fund was the first of its type in Hong Kong’s Mandatory Provident Fund (“MPF”) market. In November, we further expanded our multi-asset platform for the intermediary market with the launch of the Value Partners Asian Income Fund, which deploys dynamic asset allocation to optimize risk-adjusted returns across the market cycle, as rising geopolitical and macroeconomic uncertainty continues to stalk investors.

Value Partners is committed to the development of quantitative investment solutions in Hong Kong. Our approach couples our renowned fundamental research with big data analytics to create innovative products such as our suite of smart beta ETFs.

Report of the Chief Executive Officer

In addition to product development, we have integrated big data analytics into the investment process of our core equity funds to deepen insights. In 2017, our flagship Value Partners Classic Fund delivered a net return of 44.9%³, outperforming its market index. Quantitative techniques also play a central role in our newly-created SMART Investment Strategy, which essentially combines our renowned fundamental research with smart beta strategies. The strategy is designed to address institutional demand for cost-efficient products that aim to deliver a consistent performance against market indices. We currently have three UCITS funds under the SMART Investment Strategy, including the GEM Equity Fund that we launched in August.

Value Partners continues to receive wide industry recognition for the performance of our products. In 2017, we received 27 performance awards, including Management Firm of the Year⁴ at the AsiaHedge Awards 2017 and Outstanding Manager – Greater China Equity⁵ and Manager of the Year – High Yield Fixed Income⁵ at the Benchmark Fund of the Year Awards 2017, Hong Kong.

Deepening our footprint in China

The asset management market in Mainland China is expected to grow more than five times to US\$17 trillion by 2030⁶. Value Partners is one of the first foreign asset managers to have tapped into this vibrant market with the establishment of our Shanghai office in 2009.

Since then, our China Business has been growing steadily as our network of key business partners expanded to include an array of financial institutions in Mainland China spanning banks, insurers and wealth management advisors. This wide network provides a solid foundation for us to build on as we take the next steps forward in growing our China Business.

Value Partners achieved another milestone in the Hong Kong asset management industry in November by becoming the first homegrown asset manager to be granted a PFM license in China. In 2015, we were the first Hong Kong asset manager to be given a Qualified Domestic Limited Partnership (“QDLP”) quota. The PFM license allows Value Partners to launch our own-branded domestic private securities investment funds for eligible investors in the Mainland China market. Moreover, the launch of our first PFM fund in January 2018, two months after we were awarded the PFM license, is testament to the capabilities of our strong team of investment, business development and legal and compliance professionals in Shanghai.

We’re also preparing to launch a private equity business in Shenzhen to capture demand for private equity investments in Mainland China. Our Shenzhen subsidiary has already obtained the Qualified Foreign Limited Partnership (“QFLP”) license. The QFLP license will allow us to raise funds offshore and onshore to invest in domestic private equity projects subject to regulations. Additionally, our Classic Fund is awaiting approval for the Mainland-Hong Kong Mutual Recognition of Funds (“MRF”) program, which will allow us to sell the fund to Mainland Chinese retail investors.

While the Mainland China market isn’t likely to be short of competition from global asset managers and rising domestic players, Value Partners inhabits a sweet spot of being a fund house that’s native to Greater China but at the same time offers a world-class track record in investment performance and risk management.

Report of the Chief Executive Officer

A growing global presence

MSCI's landmark decision to include China A-shares in its closely followed emerging markets index no doubt turned a new page for China's rising prominence as an investment destination. Positioned as a China Investment Expert, Value Partners has been strengthening its international distribution network to connect foreign investor demand with attractive investments vetted by our intensive on-the-ground research-driven investment process.

In Singapore, our Southeast Asia distribution hub, we have been exploring more collaboration opportunities with regional financial institutions including major retail banks. A year after its opening, our London office, which serves as our Europe distribution hub, has made good progress. We have signed global distribution agreements with a number of major European platforms for our entire product suite and have revamped our range of UCITS funds to appeal to a broader European audience. To further deepen our presence in the Western Hemisphere, we are also exploring means to further tap into the North American market.

Institutional investors – including pension funds, high net worth individuals, institutions, endowments and foundations, family offices and trusts and funds of funds – are becoming an increasingly prominent segment of our client base. In addition to launching our SMART range of investment products, we have also been enhancing engagement with this segment by working with leading investment consultants.

To build awareness of the Value Partners brand globally, we have been working closely with international media partners, including inking a memorandum of understanding for a strategic partnership with Forbes Global Media Group in September. To commemorate our 25th anniversary, we will be unveiling a new branding campaign to showcase our achievements and capabilities.

Growing and streamlining our resources

Asset management is no doubt a talent-driven business. In 2017, we made a number of senior appointments to our investment, business management and infrastructure teams across the Group.

To support the Group's growth and ambitions, we will continue to invest in our technological infrastructure to enhance operating efficiency as our business becomes bigger and more sophisticated.

To better focus on our core asset management business, we sold our entire stake in Chengdu Vision Credit Limited – a micro lending business in Mainland China – in October. We also wholly divested our holdings in Value Partners Concord Asset Management – a subsidiary in Taiwan – in August.

Report of the Chief Executive Officer

Appreciation

As Value Partners celebrates its 25th Anniversary in 2018, I would like to thank all of our shareholders, clients, business partners and colleagues for their invaluable support over the years. I very much look forward to their continued support as Value Partners transforms from a leading local boutique to a world-class asset manager.

Dr. AU King Lun MH, PhD

Chief Executive Officer and Executive Director

1. *The Hong Kong Investment Funds Association defines Greater China equity funds as funds that are investing in Greater China and funds that are investing in any 2 of the following markets: (a) China, (b) HK & (c) Taiwan.*
2. *Performance of Value Partners Greater China High Yield Income Fund (Class P Acc USD) as of 31 December 2017, in USD, NAV to NAV, with dividend reinvested and net of fees. Annual performance over the past five years: 2013: +1.2%; 2014: +1.1%; 2015: +6.1%; 2016: +15.9%; 2017: +10.1%; 2018 (Year to date as at 28 February): +1.2%.*
3. *As of 31 December 2017. Refer to footnote 1 on page 15.*
4. *Based on performance for the 12-month period from September 2016 to the end of August 2017.*
5. *The award recognized individuals who have led his/her team to outstanding performances consistently over three-year and five-year periods against the benchmark and their peers up to 30 September 2017.*
6. *Data retrieved from research report titled Leadership in Times of Plenty: Future Winners in China's Asset Management Industry published by Deloitte's Casey Quirk in 2017.*

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

Financial review

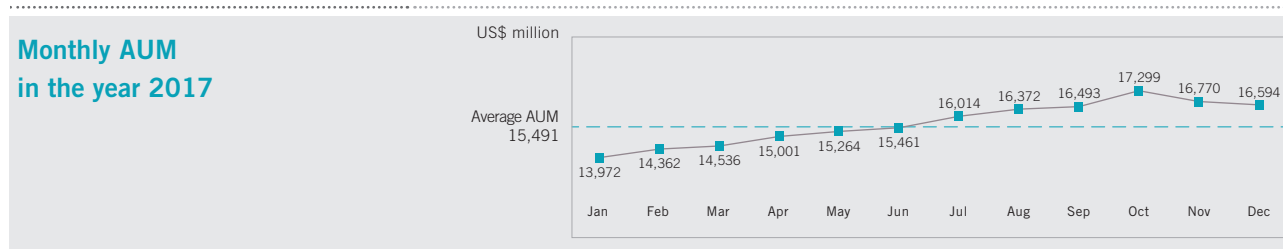
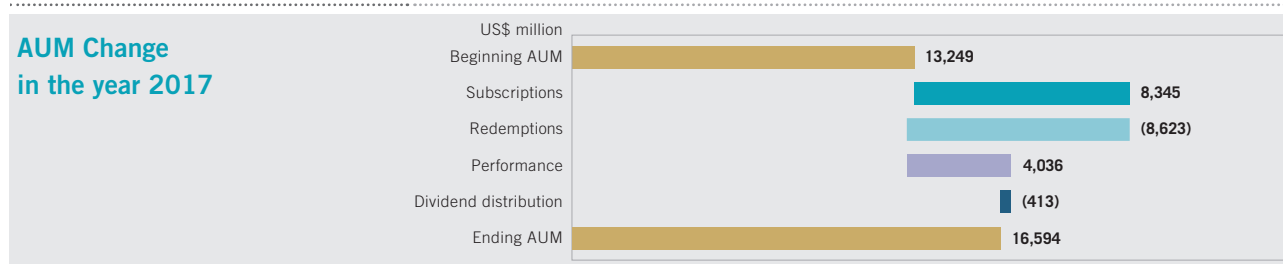
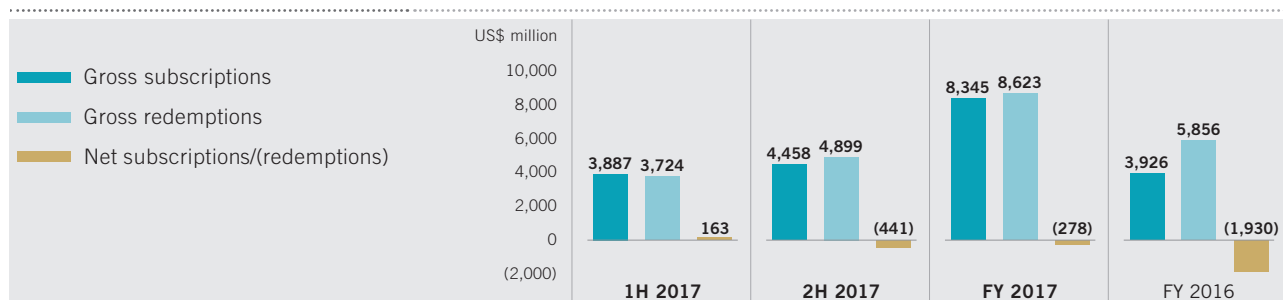
Assets Under Management

AUM and return

The Group's AUM increased to US\$16,594 million at the end of December 2017 (31 December 2016: US\$13,249 million). The significant growth was mainly due to gains from the strong performance of the Group's funds, which totaled US\$4,036 million for the year.

Overall fund performance¹, calculated as asset-weighted average return of funds under management, was a gain of 29.9% in 2017. Among our funds, the Value Partners Classic Fund², our flagship product, rose 44.9% during the year, while the Value Partners High-Dividend Stocks Fund³, recorded a gain of 32.9% during the year. Meanwhile, the Value Partners Greater China High Yield Income Fund⁴, the Group's largest public fund⁵ in Hong Kong, generated a solid return of 10.1% during the year.

For full-year 2017, we recorded a slight net redemption of US\$278 million (2016: net redemption of US\$1,930 million), which was accounted for by gross subscriptions of US\$8,345 million (2016: US\$3,926 million) and gross redemptions of US\$8,623 million (2016: US\$5,856 million).



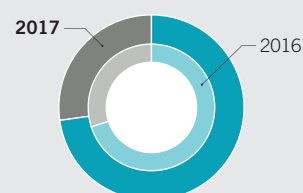
Financial review

AUM by category

The charts below show breakdowns of the Group's AUM as at 31 December 2017 using two different classifiers: brand and strategy. During the year, the percentage of AUM accounted for by our Own Branded Funds (73%) increased due to relatively strong fund flows into Value Partners' own branded products, especially the Value Partners Greater China High Yield Income Fund. By strategy, Absolute Return Long-biased Funds (68%) continued to represent the largest share of the Group's AUM, followed by Fixed Income Funds (30%), where the majority of AUM was contributed by the Value Partners Greater China High Yield Income Fund.

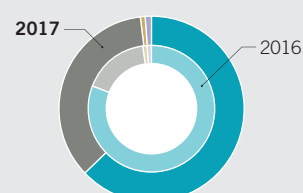
Classification by brand

	2017	2016
Own Branded Funds	73%	70%
White Label & Co-branded Funds	27%	30%



Classification by strategy

	2017	2016
Absolute Return Long-biased Funds	68%	81%
Fixed Income Funds	30%	17%
Quantitative Funds & ETF	1%	1%
Alternative Funds	1%	1%

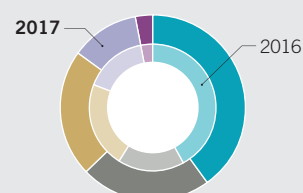


Client base

During the year, institutional clients – including institutions, pension funds, high-net-worth individuals (“HNWIs”), endowments and foundations, funds of funds, and family offices and trusts – remained the Group's primary set of fund investors, accounting for 60% of total AUM (31 December 2016: 58%). Meanwhile, retail clients contributed 40% of total AUM (31 December 2016: 42%). In terms of geographical location, Hong Kong clients accounted for 80% of the Group's AUM (31 December 2016: 83%), Singapore clients contributed 6% (31 December 2016: 4%), while United States and Europe took up a combined 6% (31 December 2016: 7%).

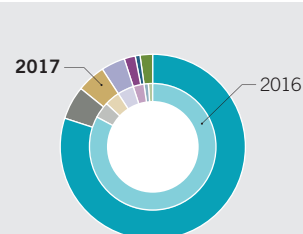
Client analysis by type

	2017	2016
Retail	40%	42%
High-net-worth individuals	23%	17%
Pension funds	22%	22%
Institutions	12%	16%
Others	3%	3%



Client analysis by geographical region

	2017	2016
Hong Kong	80%	83%
Singapore	6%	4%
China	5%	4%
United States	4%	4%
Europe	2%	3%
Australia	1%	1%
Others	2%	1%



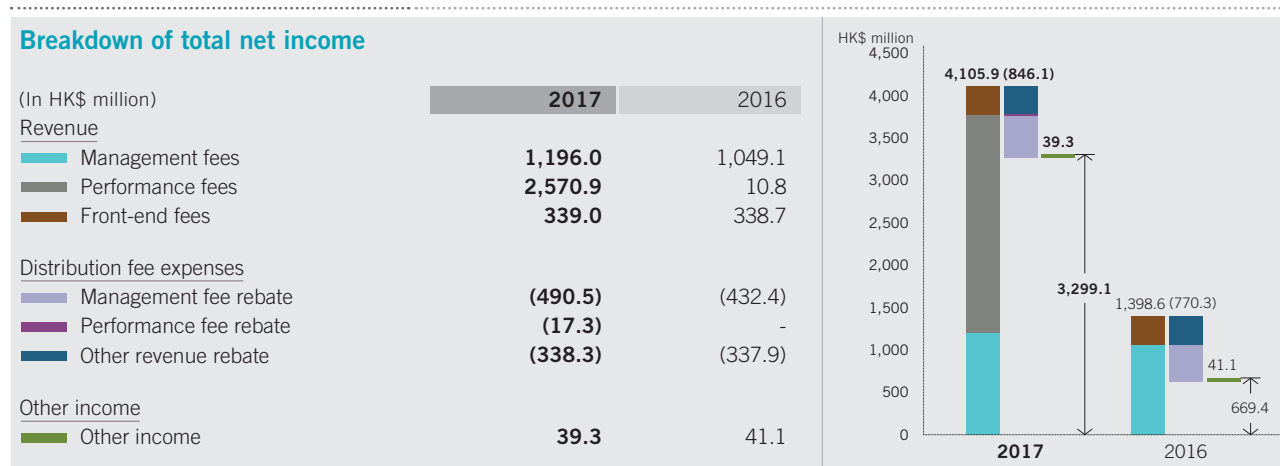
Financial review

Summary of results

Key financial highlights for the reporting period are as follows:

(In HK\$ million)	2017	2016	% Change
Total revenue	4,105.9	1,398.6	+193.6%
Gross management fees	1,196.0	1,049.1	+14.0%
Gross performance fees	2,570.9	10.8	+23,704.6%
Operating profit (before other gains/losses)	2,207.3	197.8	+1,015.9%
Profit attributable to owners of the Company	2,048.1	137.5	+1,389.5%
Basic earnings per share (HK cents)	110.6	7.4	+1,394.6%
Diluted earnings per share (HK cents)	110.5	7.4	+1,393.2%
Interim dividend per share	Nil	Nil	
Final dividend per share (HK cents)	18.0	4.8	+275.0%
Special dividend per share (HK cents)	86.0	7.2	+1,094.4%
Total dividends per share (HK cents)	104.0	12.0	+766.7%

Revenue and fee margin



The Group's profit attributable to owners of the Company surged to HK\$2,048.1 million in 2017 (2016: HK\$137.5 million), benefiting from the strong fund performance during the year. Total revenue increased by 193.6% to HK\$4,105.9 million (2016: HK\$1,398.6 million). Gross performance fees, the major source of our revenue in 2017, increased significantly to HK\$2,570.9 million (2016: HK\$10.8 million). Performance fees are generated when funds, at their performance fee crystallization dates, report returns exceeding their benchmarks or high watermarks for the respective period up to the crystallization date.

Gross management fees, another major contributor of revenue, rose 14.0% to HK\$1,196.0 million (2016: HK\$1,049.1 million) on an 11.6% increase in the Group's average AUM to US\$15,491 million (2016: US\$13,881 million).

Financial review

During the year, our annualized gross management fee margin increased to 99 basis points (2016: 97 basis points) on the back of strong net flows into our own branded funds, which have relatively higher margins. Our annualized net management fee margin increased to 59 basis points (2016: 57 basis points) as management fee rebates for distribution channels stood at HK\$490.5 million (2016: HK\$432.4 million).

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

Other income, which mainly comprised of interest income and dividend income, was HK\$39.3 million (2016: HK\$41.1 million). Interest income increased to HK\$27.1 million (2016: HK\$15.0 million), while dividend income decreased to HK\$11.7 million (2016: HK\$21.1 million).

Other gains and losses

Breakdown of other gains/(losses) – net	(In HK\$ million)	2017	2016
Net gains/(losses) on investments		198.8	(1.1)
Net losses on investments held-for-sale		–	(2.0)
Gains on disposal of a subsidiary		11.2	–
Net foreign exchange gains/(losses)		19.8	(17.4)
Foreign exchange losses reclassified to profit or loss on disposal of a foreign operation		(2.1)	–
		227.7	(20.5)

Other gains or losses mainly included fair value changes and realized gains or losses on seed capital investments, investments in our own funds and other investments, as well as gains on disposal of a subsidiary and 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 alongside investors, where appropriate, for better alignment of interests and investment returns.

Disposal of subsidiaries

During 2017, the Group disposed its 62.05% equity interest in Value Partners Concord Assets Management Co., Ltd., which was engaged in the investments business in Taiwan, for a consideration of HK\$35 million. The Group completed the disposal in August 2017 and recorded a disposal gain of HK\$11.2 million and a cumulative exchange loss of HK\$2.1 million.

The Group disposed its entire equity interest in Brilliant Star Capital (Cayman) Limited, which indirectly held 90% of the Group's small loan business in Chengdu. The transaction was completed in October 2017 and the Group recorded a disposal loss of HK\$10.5 million and a cumulative exchange loss of HK\$28.9 million. As the small loan business made up a single business segment, the disposed group's results and losses arising from the disposal are presented as a discontinued operation.

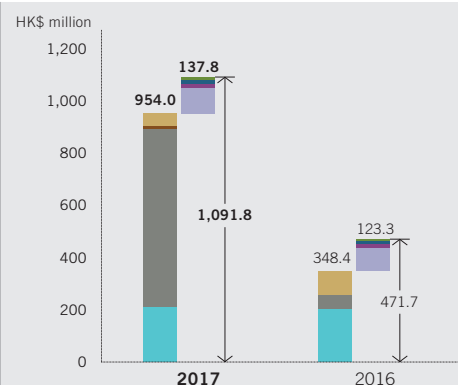
Financial review

Cost management

Breakdown of total expenses

(In HK\$ million)

	2017	2016
Compensation and benefit expenses		
Fixed salaries and staff benefits	212.9	205.3
Management bonus	682.1	52.5
Staff rebates	10.2	1.4
Share-based compensation expenses	48.8	89.2
Other expenses		
Other fixed operating costs	96.2	86.8
Sales and marketing	15.4	17.4
Depreciation	16.3	13.2
Non-recurring expenses	9.9	5.9



In terms of cost management, the Group continued to exercise stringent cost discipline and kept fixed operating expenses well covered by net management fee income, a relatively stable income source. Such coverage is measured by the “fixed cost coverage ratio”, an indicator showing the number of times that fixed operating expenses (excluding discretionary and non-recurring expenses) are covered by net management fee income. The Group aims to maintain a fixed cost coverage ratio of around 2 times. For 2017, the Group reported a fixed cost coverage ratio (for the asset management business) of 2.3 times (2016: 2.1 times).

Compensation and benefit expenses

During the year, fixed salaries and staff benefits rose by HK\$7.6 million to HK\$212.9 million (2016: HK\$205.3 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 a management bonus to employees – the management bonus for the year increased to HK\$682.1 million (2016: HK\$52.5 million). The profit pool is calculated by deducting certain adjustments from net profit before management bonus and taxation. This discretionary bonus was maintained as it promotes staff loyalty and performance, while aligning employee and shareholder interests.

The staff of Value Partners is entitled to partial rebates of management fees and performance fees when investing in funds managed by the Group. Staff rebates for the year amounted to HK\$10.2 million (2016: HK\$1.4 million).

During the year, the Group recorded expenses of HK\$48.8 million (2016: HK\$89.2 million) relating to stock options granted to employees. This expense item had no impact on cash flows and was recognized in accordance with Hong Kong Financial Reporting Standards.

Other expenses

Other non-staff operating costs, such as rent, legal and professional fees, investment research fees, and other administrative and office expenses, amounted to HK\$96.2 million for 2017 (2016: HK\$86.8 million), while sales and marketing expenses decreased to HK\$15.4 million (2016: HK\$17.4 million).

Financial review

Dividends

The Group has been adopting a consistent dividend distribution policy that takes into account the relatively volatile nature of asset management income streams. This policy states that dividends (if any) will be declared annually at the end of each financial year to better align dividend payments with the Group's full-year performance. Dividend per share is declared based on the Group's realized profit, which excludes unrealized gains and losses recognized.

On 19 January 2018, the Board of Directors declared a special dividend of HK86.0 cents per share which was paid to the shareholders on 28 February 2018. For the year ended 31 December 2017, the Board of Directors recommended a final dividend of HK18.0 cents per share.

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. As at the end of 2017, the Group's balance sheet and cash flow positions remained strong, with a net cash balance of HK\$2,204.7 million. Net cash inflows from operating activities amounted to HK\$596.1 million, while 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 its current ratio (current assets divided by current liabilities) was 4.2 times.

Capital structure

As at 31 December 2017, the Group's shareholders' equity and total number of shares issued were HK\$5,640.0 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 31 December 2017. Refer to footnote 1 on page 15.
3. Performance of Value Partners High-Dividend Stocks Fund (Class A1) as of 31 December 2017, in USD, NAV to NAV, with dividend reinvested and net of fees. Annual performance over the past five years: 2013: +8.1%; 2014: +9.4%; 2015: -3.7%; 2016: -0.2%; 2017: +32.9%; 2018 (Year to date as at 28 February): +1.7%.
4. As of 31 December 2017. Refer to footnote 2 on page 20.
5. SFC authorization is not a recommendation or endorsement of a scheme nor does it guarantee the commercial merits of a scheme or its performance. It does not mean the scheme is suitable for all investors nor is it an endorsement of its suitability for any particular investor or class of investors.

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

Biographies of directors and senior management

Chairman

CHEAH Cheng Hye

Chairman and Co-Chief Investment Officer

Dato' Seri CHEAH Cheng Hye, aged 64, is Chairman and Co-Chief Investment Officer ("Co-CIO") of Value Partners Group. He is in charge of Value Partners' fund management and investment research, business operations, product development and corporate management. He sets the Group's overall business and portfolio strategy. (Note: In July 2010, Mr. Louis SO was promoted to become Co-CIO of Value Partners, working alongside Dato' Seri CHEAH.)

Dato' Seri CHEAH has been in charge of Value Partners since he co-founded the firm in February 1993 with his partner, Mr. V-Nee YEH. Throughout the 1990s, he held the position of Chief Investment Officer and Managing Director of Value Partners, responsible for managing both the firm's funds and business operation. He led Value Partners to a successful listing on the Main Board of the Hong Kong Stock Exchange in 2007. The firm became the first asset management company listed in Hong Kong. Dato' Seri CHEAH has more than 30 years of investment experience, and is considered one of the leading practitioners of value-investing in Asia and beyond. Value Partners and he personally have received numerous awards – a total of more than 170 professional awards and prizes since the firm's inception in 1993.

Dato' Seri CHEAH currently serves as an Independent Non-executive Director of Hong Kong Exchanges and Clearing Limited ("HKEX") since April 2017. He has been a member of the Financial Services Development Council ("FSDC"), a high-level, cross-sector advisory body established by the Hong Kong Special Administrative Region Government, since 2015, following a two-year term as a member of the New Business Committee of FSDC since 2013. In addition, he has been a member of The Hong Kong University of Science and Technology ("HKUST") Business School Advisory Council since June 2011. He is also Deputy Chairman of The Malaysian Chamber of Commerce (Hong Kong and Macau).

In August 2016, Dato' Seri CHEAH was conferred Darjah Gemilang Pangkuan Negeri ("DGPN"), one of the highest civil honours granted by the state of Penang in Malaysia to recognize exceptional individuals. The DGPN award comes with the title of "Dato' Seri". In 2013, he was conferred Darjah Setia Pangkuan Negeri ("DSPN") with the title of "Dato' ". In the same year, he was named an Honorary Fellow of the HKUST for outstanding achievements.

Dato' Seri CHEAH was named "Outstanding Manager of the Year – Greater China equity category" in the Fund of the Year Awards 2017 by *Benchmark*, and co-winner of "CIO of the Year in Asia" along with Mr. Louis SO in the 2011 Best of the Best Awards by *Asia Asset Management*. In 2010, he was named by *AsianInvestor* as one of the Top-25 Most Influential People in Asian Hedge Funds. In 2009, he was named by *AsianInvestor* as one of the 25 Most Influential People in Asian Asset Management. He was also named "Capital Markets Person of the Year" by *FinanceAsia* in 2007, and in 2003, he was voted the "Most Astute Investor" in the *Asset Benchmark Survey*.

Prior to starting Value Partners, Dato' Seri CHEAH worked at Morgan Grenfell Group in Hong Kong, where, in 1989, he founded the Company's Hong Kong/China equities research department as the Head of Research and proprietary trader for the firm. Prior to this, he was a financial journalist with the *Asian Wall Street Journal* and *Far Eastern Economic Review*, where he reported on business and financial news across East and Southeast Asia markets. Dato' Seri CHEAH served for nine years (1993 to 2002) as an independent non-executive director of Hong Kong-listed JCG Holdings, a leading microfinance company (a subsidiary of Public Bank Malaysia renamed from 2006 as Public Financial Holdings).

Biographies of directors and senior management

Executive Directors

SO Chun Ki Louis

Deputy Chairman and Co-Chief Investment Officer

Mr. Louis SO, aged 42, is Deputy Chairman and Co-Chief Investment Officer (“Co-CIO”) of Value Partners Group, responsible for assisting Dato’ Seri CHEAH Cheng Hye, Chairman of the Board, in overseeing group affairs and activities, as well as daily operations and overall management of the firm’s investment management team. He holds a leadership role in the Group’s investment process, including a high degree of responsibility for portfolio management.

Mr. SO has nearly 20 years of experience in the financial industry, with a solid track record in research and portfolio management. He joined the Group in May 1999 and was promoted to take up various research and fund management roles since then. His extensive management capability and on-the-ground experience helped the Group establish an unparalleled research and investment team.

He was named “Outstanding Manager of the Year – Greater China equity category” in the Fund of the Year Awards 2017 by *Benchmark*. In the 2011 Best of the Best Awards by *Asia Asset Management*, he was the co-winner of “CIO of the Year in Asia” along with Dato’ Seri CHEAH Cheng Hye.

Mr. SO graduated from the University of Auckland in New Zealand with a Bachelor’s degree in Commerce and obtained a Master’s degree in Commerce from the University of New South Wales in Australia.

AU King Lun MH, PhD

Chief Executive Officer

Dr. AU King Lun, aged 58, is Chief Executive Officer (“CEO”) of Value Partners Group, responsible for the Group’s business and corporate affairs. He joined Value Partners in December 2016, bringing decades of asset management industry experience to his role.

Previously, Dr. AU was CEO of Eastspring Investments (Hong Kong) Limited and BOCHK Asset Management Limited. He also held various senior management positions at other financial institutions including HSBC Global Asset Management (Hong Kong) Limited. Dr. AU was named CEO of the Year in Hong Kong by *Asia Asset Management* in 2012 and 2014. He was awarded the Medal of Honour (“MH”) by the Government of the Hong Kong Special Administrative Region (“Hong Kong SAR”) for his valuable contributions to the securities and asset management industry in 2008.

Currently, Dr. AU is an Index Advisory Committee Member of the Shanghai Stock Exchange as well as the China Securities Index Co., Ltd. He also sits on the Advisory Committee of Hong Kong’s Securities and Futures Commission and the Market Development Committee of the Financial Services Development Council (“FSDC”). In addition, he was the Chairman of the Hong Kong Securities and Investment Institute from 2006 to 2008 and the Chairman of the Hong Kong Investment Funds Association in 2004/2005.

Dr. AU holds a CFA, and he earned a Bachelor’s degree in Physics from the University of Oxford and a PhD in Theoretical Particle Physics from Durham University.

Biographies of directors and senior management

HUNG Yeuk Yan Renee

Deputy Chief Investment Officer

Ms. Renee HUNG, aged 43, is Deputy Chief Investment Officer of Value Partners Group, responsible for the overall management of the investment management team. She also holds a leadership role in the Group's investment process and commands a high degree of responsibility for portfolio management.

Ms. HUNG has extensive experience in the financial industry, with a solid track record in research and portfolio management. She joined Value Partners as an Analyst in April 1998. She was promoted to the roles of Fund Manager and Senior Fund Manager in 2004 and 2005, respectively. In March 2009, she was promoted to her current role of Deputy Chief Investment Officer.

From 2012/2013 to 2016/2017, Ms. HUNG served as a member of the Board of Directors of Tung Wah Group of Hospitals in Hong Kong.

Ms. HUNG holds an Executive MBA degree from the City University of Hong Kong and a Bachelor of Science degree in Applied Mathematics from the University of California in Los Angeles.

Independent Non-executive Directors

CHEN Shih-Ta Michael

Dr. Michael Shih-Ta CHEN, aged 72, was appointed as an Independent Non-executive Director of Value Partners Group Limited since 22 October 2007.

Currently, Dr. CHEN serves as an Advisor of the Thompson Center for Business Case Studies at The Hong Kong University of Science and Technology, and a Senior Advisor to the Director of the Case Research Center at Peking University, Guanghua School of Management. He was appointed as a member of Harvard Business School's Asia-Pacific Advisory Board and a member of the Investment Committee of the Croucher Foundation in Hong Kong in November 2014 and January 2015, respectively. He was 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 Center in October 2005, he worked in both the private and public sectors. Previously, he 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 Regional Director of National Westminster Bank. He served on the boards of a number of companies invested by Asian Development Bank. He also wrote cases and taught at various educational entities and universities.

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

Biographies of directors and senior management

LEE Siang Chin

Mr. LEE Siang Chin, aged 69, was appointed as an Independent Non-executive Director of Value Partners Group Limited since 22 October 2007.

Mr. LEE currently serves as an Independent Non-executive Director for Maybank Kim Eng Securities (Thailand) Public Limited Company (a company listed on the Stock Exchange of Thailand), Maybank Investment Bank Bhd and Star Publications (Malaysia) Bhd (a company listed on the Malaysian Stock Exchange). Mr. LEE previously served as Chairman and Managing Director of Surf88.com Sdn Bhd and AmSecurities Sdn Bhd, respectively. He also served as an Independent Non-Executive Director of Hilong Holding Ltd. (a company listed on The Stock Exchange of Hong Kong Limited), the Social Security Organization of Malaysia, and a member of its investment panel. He worked in corporate finance departments of leading investment banks in London, Sydney and Kuala Lumpur. In addition, Mr. LEE held various public offices. He was a board member of the Kuala Lumpur Stock Exchange and the President of the Association of Stock Broking Companies in Malaysia.

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

Nobuo OYAMA

Mr. Nobuo OYAMA, aged 64, was appointed as an Independent Non-executive Director of Value Partners Group Limited since 22 October 2007.

Mr. OYAMA is currently an Adviser to Funai Kosan, Co., Ltd., Japan. Previously, he had over 30 years' experience in financial operations across Japan, United Kingdom and Hong Kong for Nichimen Corporation, Japan, including the Managing Director of Nichimen Co., (Hong Kong) Ltd. and Sojitz Trade & Investment Services (Hong Kong) Ltd. After leaving Nichimen/Sojitz Group, Mr. OYAMA served as a board member etc. of various venture companies, including PreXion Corporation, Japan, Yappa Corporation, Japan and TeraRecon Inc., USA. He was also the founder and Managing Director of Asiavest Co., Ltd., Japan.

In 2014, Mr. OYAMA was conferred the title of “Pingat Kelakuan Terpuji” (PKT) by the government of Penang, Malaysia. In September 2013, he was appointed by Invest-in-Penang Berhad, the state government agency, as “Honorary Industry Expert – Development of SMEs in Penang” to attract Japanese SMEs to invest in the state.

Mr. OYAMA received a Bachelor's degree in Economics from the Kobe University in Japan, and was awarded a Master's degree in Business Administration from Asia University, Tokyo, Japan. Mr. OYAMA is a Chartered Member of the Securities Analysts Association of Japan (CMA®).

Biographies of directors and senior management

Other senior management members

Investment Management Team

HO Man Kei, Norman CFA

Senior Investment Director

Mr. Norman HO, aged 51, is a Senior Investment Director of Value Partners, where he is a key leader in the Group's investment process, including a high degree of responsibility for portfolio management.

Mr. HO has extensive experience in the fund management and financial industry, with a focus on research and portfolio management. Mr. HO joined the Group in November 1995. He was promoted to the roles of Investment Director and Senior Investment Director in 2010 and January 2014, respectively. Prior to joining the Group, he was an Executive with Dao Heng Securities Limited and had started his career with Ernst & Young.

Mr. HO graduated with a Bachelor's degree in Social Sciences (majoring in Management Studies) from The University of Hong Kong. He is a CFA charterholder.

IP Ho Wah Gordon CFA

Chief Investment Officer, Fixed Income

Mr. Gordon IP, aged 47, is Chief Investment Officer, Fixed Income of Value Partners, where he oversees the firm's credit and fixed income investments and portfolio management. He has over 20 years of experience in the fixed income industry. He was named "Manager of the Year – High Yield Fixed Income category" in the Fund of the Year Awards 2017 by *Benchmark* and "Highly Commended Fund Manager of the Year – Long Only Fixed Income" by *The Asset* in 2017. He was also crowned one of the top 10 Astute Investors in Asian G3 bonds in Hong Kong by *The Asset* Benchmark Research for four consecutive years (2014 to 2017). He came in 10th in the 2017 ranking.

Mr. IP joined Value Partners in August 2009 as a Fund Manager and was promoted to the roles of Senior Fund Manager and Investment Director in 2015 and 2016, respectively. In July 2017, he was promoted to his current role.

Prior to joining the firm, he was a Director at HSBC Private Bank in Hong Kong, overseeing its fixed income advisory business. Before relocating to Hong Kong in 2008, Mr. IP served at Prudential Fixed Income Management in the United States for four years, specializing in relative value and credit analysis of securitized products. Besides performing security selection, he was also involved in the day-to-day management and performance attribution of fixed income portfolios.

Prior to Prudential, he was a Vice President in Fixed Income Research at Salomon Smith Barney in New York, contributing to the analysis and structuring of active as well as passive fixed income portfolios for many Fortune 500 companies, sovereign wealth funds and Asian government agencies. Mr. IP started his career as an analyst at Goldman Sachs' fixed income, currency and commodity division in Hong Kong in 1995.

Mr. IP holds a Master's degree in Financial Mathematics from the University of Chicago and a Master's degree in Engineering from Cornell University in the United States. He is a CFA charterholder.

Biographies of directors and senior management

YU Xiaobo

Investment Director and Head of China Business

Mr. YU Xiaobo, aged 34, is an Investment Director and Head of China Business of Value Partners, where he is responsible for research and investment management on the Greater China region, an area he has 10 years of experience. In addition, he oversees the Group's China business.

Mr. YU joined Value Partners in December 2009 as a Senior Analyst and was promoted to the roles of Fund Manager and Senior Fund Manager in 2014, and Investment Director in October 2016. Currently, he is involved in the management of the Group's flagship Classic Fund and a few mandates for European and US clients. In addition, he is the sole manager responsible for the management of Value Partners Health Care Fund and an A-share mandate.

Mr. YU has extensive experience in the industry. Prior to joining Value Partners, he was with China International Capital Corporation as an Analyst. He also worked at PricewaterhouseCoopers.

Mr. YU graduated from the University of International Business & Economics in China with a Bachelor's degree in Business Management and obtained a Master's degree in Business Administration from Cheung Kong Graduate School of Business in China.

Business Management Team

Roger Anthony HEPPER

Chief Operating Officer

Mr. Roger HEPPER, aged 57, is Chief Operating Officer of Value Partners Group. He oversees the overall infrastructure of the Group, covering product development, information technology and operations, risk and controls, as well as middle-office coordination across the Group's Hong Kong headquarters and overseas offices.

Mr. HEPPER joined Value Partners in August 2016. He has a distinguished career in asset management with 30 years of experience. He is a veteran of JPMorgan Group with diverse leadership roles.

Mr. HEPPER was Managing Director and Chief Operating Officer of Asia Pacific for JPMorgan Asset Management. He joined the firm in 1987 as an Internal Audit Manager in London and relocated to Hong Kong in 1995 as a Senior Finance Manager of Jardine Fleming Unit Trusts. He was appointed Head of Risk Management and Middle Office of Asia Pacific in 1999, then Head of Risk, Operations & Technology of Asia Pacific in 2001, before taking up the Regional Chief Operating Officer role in 2003. Prior to joining the firm, he began his career at Baker Rooke in London and qualified as a Chartered Accountant.

In addition to holding a number of directorships and board memberships at JPMorgan Asset Management across Asia, Mr. HEPPER was invited to sit in various committees of Hong Kong's Securities and Futures Commission such as the Committee on Unit Trusts and the Real Estate Investment Trusts Committee. He also served as a Representative Director on the OTC Clear Board of Hong Kong Exchanges and Clearing Limited.

Mr. HEPPER graduated from Loughborough University of Technology in England with a Bachelor's degree in Accountancy and Financial Management. He is a Fellow of I.C.A.E.W.

Biographies of directors and senior management

WONG Ngai Sze, Icy

Chief Financial Officer

Ms. Icy WONG, aged 40, is Chief Financial Officer of Value Partners Group, where she is responsible for financial control and treasury operations of the Group and its subsidiaries. She is also in charge of the investor relations function.

Ms. WONG has broad experience in the asset management industry, particularly with regard to financial management, investor relations and other related functions. She joined Value Partners in June 2008 as a Manager of Finance and was promoted over the years to oversee the finance division. In January 2017, she was appointed Chief Financial Officer.

Prior to joining Value Partners, Ms. WONG worked at Ernst & Young and PricewaterhouseCoopers, covering assurance and advisory business service.

Ms. WONG graduated with a Bachelor's degree in Commerce, Accounting and Finance from the University of New South Wales in Australia. She is a member of the Hong Kong Institute of Certified Public Accountants and a holder of Financial Risk Manager ("FRM").

CHEUNG Wan May Wimmie

Head of Legal

Ms. Wimmie CHEUNG, aged 42, is Head of Legal of Value Partners, where she oversees all legal affairs for the Company.

Ms. CHEUNG is an experienced legal professional with nearly 20 years in the field. She joined Value Partners in August 2005 as Legal Advisor. She was promoted to Senior Legal Advisor in 2007 and Head of Legal in January 2010.

Prior to joining Value Partners, Ms. CHEUNG was a Corporate Counsel with a group of companies listed on the Main Board of the Stock Exchange of Hong Kong Limited.

Ms. CHEUNG received her Master of Laws (LL.M) from the University of London and obtained her Postgraduate Certificate in Laws (P.C.LL) from the University of Hong Kong.

LEE Vivienne

Chief Compliance Officer

Ms. Vivienne LEE, aged 44, is Chief Compliance Officer of Value Partners, where she oversees the Group's compliance function.

Ms. LEE has broad experience in the industry with a particular focus on compliance functions and scope, expertise in regulatory statutes, as well as other related functions. She joined the Group in May 2004 as an Assistant Compliance Manager. She was promoted to the roles of Compliance Manager, Senior Manager of Compliance and Compliance Director in 2004, 2005 and 2008, respectively. In May 2012, she was promoted to Chief Compliance Officer.

Previously, she was an Assistant Manager with the Hong Kong Securities and Futures Commission responsible for monitoring and inspecting portfolios 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 in Australia with a Bachelor's degree in Economics. She is a member of the CPA Australia.

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 2017.

Principal activities

The Company is an investment holding company. The Group is principally engaged in value-oriented asset management businesses. The activities of its principal subsidiaries are set out in Note 15.1 to the consolidated financial statements.

Results

The results of the Group for the year are set out in the Consolidated Statement of Comprehensive Income on page 71.

Dividends

No interim dividend was paid during the year. On 19 January 2018, the Board declared a special dividend of HK86.0 cents per share which was paid to the shareholders on 28 February 2018. The Directors recommend the payment of a final dividend of HK18.0 cents per share for the year ended 31 December 2017 to the shareholders whose names are registered on the register of members of the Company on 8 May 2018. Subject to the approval of shareholders of the Company at the Annual General Meeting for the year 2018, the final dividend will be payable on or about 23 May 2018. Dividend per share is declared based on the Group’s realized profit which excluded the unrealized gains and losses recognized.

Summary of results, assets and liabilities

Summary of results, assets and liabilities for the years of 2013 to 2017 are set out on page 3 of this report.

Share issued in the year

Details of the shares issued in the year ended 31 December 2017 are set out in Note 26 to the consolidated financial statements.

Reserves

In addition to the retained earnings of the Company, the share premium account which is included in issued equity, and other reserves of the Company as set out in Note 37 to the consolidated financial statements, are 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 2017, the Company’s distributable reserve was HK\$4,456,576,000.

Charitable contributions

During the year, the Group made charitable contributions totalling HK\$22,000.

Report of the directors

Board of Directors

During the year ended 31 December 2017 and up to the date of this report the Board comprised:

Executive Directors

Dato' Seri CHEAH Cheng Hye (*Chairman*)
Mr. SO Chun Ki Louis
Dr. AU King Lun
Ms. HUNG Yeuk Yan Renee

Independent Non-executive Directors

Dr. CHEN Shih-Ta Michael
Mr. LEE Siang Chin
Mr. Nobuo OYAMA

In accordance with article 87 of the Company's articles of association, Dato' Seri CHEAH Cheng Hye, Mr. SO Chun Ki Louis and Mr. Nobuo OYAMA will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

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 of Hong Kong Limited (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 27 to 30.

Directors' service contracts

The service contract of Executive Directors 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 party not less than three months' prior notice in writing (other than Dato' Seri CHEAH Cheng Hye and Dr. AU King Lun 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 2017 and either the Company or the Independent Non-executive Director may terminate the appointment by giving at least three months' notice in writing.

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 2017, 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:

Report of the directors

(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 hold under the share option scheme ⁽³⁾	Approximate percentage of issued Shares
Dato’ Seri CHEAH Cheng Hye	Founder of trust/beneficial ⁽¹⁾	403,730,484	–	21.80%
	Beneficial	57,470,828	56,620,000	6.16%
Mr. SO Chun Ki Louis	Beneficial	14,165,723	16,990,000	1.68%
Ms. HUNG Yeuk Yan Renee	Founder of trust ⁽²⁾	16,870,583	–	0.91%
	Beneficial	–	11,370,000	0.61%
Dr. CHEN Shih-Ta Michael	Beneficial	–	500,000	0.02%
Mr. LEE Siang Chin	Beneficial	200,000	300,000	0.02%
Mr. Nobuo OYAMA	Beneficial	500,000	300,000	0.04%

Notes:

- (1) These Shares are directly held by Cheah Capital Management Limited (“CCML”) which is wholly-owned by Cheah Company Limited (“CCL”) which is in turn wholly-owned by BNP Paribas Jersey Nominee Company Limited, a company incorporated in Jersey, Channel Islands, holding the shares in CCL as nominee for BNP Paribas Jersey Trust Corporation Limited as trustee for a discretionary trust, the discretionary objects of which include Dato’ Seri CHEAH Cheng Hye and certain members of his family. For the purposes of the SFO, Dato’ Seri CHEAH Cheng Hye is the founder of this trust. The ultimate holding company of BNP Paribas Jersey Trust Corporation Limited is BNP Paribas SA.
- (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 East Asia International Trustees Limited, a company incorporated in the British Virgin Islands, 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 hold under the share option scheme 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
Dato’ Seri CHEAH Cheng Hye	Value Partners Strategic Equity Fund	Beneficial	74,000 non-voting shares	0.49% 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. 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 Stenying Holdings Limited, whose entire issued share capital is held by 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 expired on 24 October 2017 (the “2007 Share Option Scheme”). All outstanding options granted under the 2007 Share Option Scheme will continue to be valid and exercisable in accordance with the principal terms of the 2007 Share Option Scheme. A summary of the movements of the outstanding share options during the year ended 31 December 2017 is as follows:

Grantee	Date of grant	Exercise period	Exercise price (HK\$)	As at 01/01/2017	Number of Share Options			As at 31/12/2017
					Granted	Exercised	Lapsed	
Dato' Seri CHEAH Cheng Hye	17/06/2015 ⁽³⁾	17/12/2015-16/12/2021	14.092	18,873,333	–	–	–	18,873,333
		17/12/2016-16/12/2021	14.092	18,873,333	–	–	–	18,873,333
		17/12/2017-16/12/2021	14.092	18,873,334	–	–	–	18,873,334
Mr. SO Chun Ki Louis	07/12/2012	31/12/2013-06/12/2022	4.56	533,334	–	–	–	533,334
		07/12/2014-06/12/2022	4.56	533,333	–	–	–	533,333
		07/12/2015-06/12/2022	4.56	533,333	–	–	–	533,333
	12/05/2015	12/05/2018-11/11/2021	13.60	1,716,666	–	–	–	1,716,666
		12/05/2019-11/11/2021	13.60	1,716,666	–	–	–	1,716,666
		12/05/2020-11/11/2021	13.60	1,716,668	–	–	–	1,716,668
	17/06/2015	17/12/2015-16/12/2021	14.092	3,413,333	–	–	–	3,413,333
		17/12/2016-16/12/2021	14.092	3,413,333	–	–	–	3,413,333
		17/12/2017-16/12/2021	14.092	3,413,334	–	–	–	3,413,334
Ms. HUNG Yeuk Yan Renee	07/12/2012	31/12/2013-06/12/2022	4.56	400,000	–	–	–	400,000
		07/12/2014-06/12/2022	4.56	400,000	–	–	–	400,000
		07/12/2015-06/12/2022	4.56	400,000	–	–	–	400,000
	12/05/2015	12/05/2018-11/11/2021	13.60	1,016,666	–	–	–	1,016,666
		12/05/2019-11/11/2021	13.60	1,016,666	–	–	–	1,016,666
		12/05/2020-11/11/2021	13.60	1,016,668	–	–	–	1,016,668
	17/06/2015	17/12/2015-16/12/2021	14.092	2,373,333	–	–	–	2,373,333
		17/12/2016-16/12/2021	14.092	2,373,333	–	–	–	2,373,333
		17/12/2017-16/12/2021	14.092	2,373,334	–	–	–	2,373,334
Dr. CHEN Shih-Ta Michael	31/05/2012	31/12/2013-30/05/2022	3.94	66,667	–	–	–	66,667
		31/05/2014-30/05/2022	3.94	66,667	–	–	–	66,667
		31/05/2015-30/05/2022	3.94	66,666	–	–	–	66,666
	17/06/2015	17/12/2015-16/12/2021	14.092	100,000	–	–	–	100,000
		17/12/2016-16/12/2021	14.092	100,000	–	–	–	100,000
		17/12/2017-16/12/2021	14.092	100,000	–	–	–	100,000
Mr. LEE Siang Chin	17/06/2015	17/12/2015-16/12/2021	14.092	100,000	–	–	–	100,000
		17/12/2016-16/12/2021	14.092	100,000	–	–	–	100,000
		17/12/2017-16/12/2021	14.092	100,000	–	–	–	100,000
Mr. Nobuo OYAMA	17/06/2015	17/12/2015-16/12/2021	14.092	100,000	–	–	–	100,000
		17/12/2016-16/12/2021	14.092	100,000	–	–	–	100,000
		17/12/2017-16/12/2021	14.092	100,000	–	–	–	100,000

Report of the directors

Grantee	Date of grant	Exercise period	Exercise price (HK\$)	As at 01/01/2017	Number of Share Options			As at 31/12/2017
					Granted	Exercised	Lapsed	
Employees	31/05/2012	31/05/2013-30/05/2022	3.94	100,000	–	–	–	100,000
		31/05/2014-30/05/2022	3.94	100,000	–	–	–	100,000
		31/05/2015-30/05/2022	3.94	200,000	–	–	–	200,000
	07/12/2012	31/12/2013-06/12/2022	4.56	400,000	–	–	–	400,000
		07/12/2014-06/12/2022	4.56	400,000	–	–	–	400,000
		07/12/2015-06/12/2022	4.56	400,000	–	–	–	400,000
	12/05/2015	12/05/2018-11/11/2021	13.60	9,739,990	–	–	(3,623,331)	6,116,659
		12/05/2019-11/11/2021	13.60	9,739,990	–	–	(3,623,331)	6,116,659
		12/05/2020-11/11/2021	13.60	9,740,020	–	–	(3,623,338)	6,116,682
	17/06/2015	17/12/2015-16/12/2021	14.092	6,233,322	–	–	(1,669,997)	4,563,325
		17/12/2016-16/12/2021	14.092	6,233,322	–	–	(1,669,997)	4,563,325
		17/12/2017-16/12/2021	14.092	6,233,356	–	–	(1,670,006)	4,563,350
Total				135,600,000	–	–	(15,880,000)	119,720,000

Notes:

1. The closing prices of the Shares immediately before the share options granted on 31 May 2012, 7 December 2012, 12 May 2015 and 17 June 2015 were HK\$3.90, HK\$4.54, HK\$13.68 and HK\$13.50 respectively.
2. No share option was cancelled during the year.
3. Out of a total of 56,620,000 share options, the grant of 54,800,000 share options to Dato' Seri CHEAH was approved in the extraordinary general meeting of the Company held on 27 July 2015.

Save as disclosed above, at no time during the year was 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 2007 Share Option Scheme will be treated as lapsed options.

Report of the directors

Substantial shareholders' interests

As at 31 December 2017, 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 ⁽¹⁾	Spouse	517,821,312	27.96%
Mr. YEH V-Nee	Beneficial	298,805,324	16.13%
Mrs. YEH Mira ⁽²⁾	Spouse	298,805,324	16.13%
Cheah Capital Management Limited ⁽³⁾	Beneficial	403,730,484	21.80%
Cheah Company Limited ⁽³⁾	Corporate	403,730,484	21.80%
BNP Paribas Jersey Nominee Company Limited ⁽³⁾	Nominee	403,730,484	21.80%
BNP Paribas Jersey Trust Corporation Limited ⁽³⁾	Trustee	403,730,484	21.80%

Notes:

- (1) Ms. TO Hau Yin is the spouse of Dato' Seri CHEAH Cheng Hye.
- (2) Mrs. YEH Mira is the spouse of Mr. YEH V-Nee.
- (3) Cheah Capital Management Limited ("CCML") is wholly-owned by Cheah Company Limited ("CCL") which in turn is wholly-owned by BNP Paribas Jersey Nominee Company Limited, a company incorporated in Jersey, Channel Islands, holding the shares in CCL as nominee for BNP Paribas Jersey Trust Corporation Limited as trustee for a discretionary trust, the discretionary objects of which include Dato' Seri CHEAH Cheng Hye and certain members of his family. For the purposes of the SFO, Dato' Seri CHEAH Cheng Hye is the founder of this trust. The ultimate holding company of BNP Paribas Jersey Trust Corporation Limited is BNP Paribas SA.

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

The 2007 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) and expired on 24 October 2017. All outstanding options granted under the 2007 Share Option Scheme will continue to be valid and exercisable in accordance with the principal terms of the 2007 Share Option Scheme. The Company adopted a new share option scheme at an annual general meeting of the Company held on 4 May 2017 (the "2017 Share Option Scheme"). A summary of the principal terms of the 2017 Share Option Scheme is set out below.

Report of the directors

1. Purpose of the 2017 Share Option Scheme

To reward Participants as defined in item 2 below 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 2017 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 2017 Share Option Scheme and percentage of issued share capital as at the date of this Annual Report

185,171,483 shares (10%)

4. Maximum entitlement of each participant under the 2017 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 a resolution of the Shareholders.

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 2017 Share Option Scheme

The Share Option Scheme will remain valid until 3 May 2027.

Report of the directors

Connected transactions and continuing connected transactions

During the year, the Company did not have any connected transactions and continuing connected transactions which were subject to the disclosure requirements of the Listing Rules. The related-party transactions as disclosed in Note 36 did not fall under the definition of connected transactions or continuing connected transactions in the Listing Rules.

Disclosure of information of Directors

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes of information of the Directors are as follows:

- The monthly salary of Dato' Seri CHEAH Cheng Hye was revised from HK\$517,400 to HK\$527,750 with effect from 1 January 2018.
- The monthly salary of Mr. SO Chun Ki Louis was revised from HK\$297,900 to HK\$303,860 with effect from 1 January 2018.
- The monthly salary of Dr. AU King Lun was revised from HK\$270,000 to HK\$275,400 with effect from 1 January 2018.
- The monthly salary of Ms. HUNG Yeuk Yan Renee was revised from HK\$200,800 to HK\$216,860 with effect from 1 January 2018.
- The annual remuneration of each of Dr. CHEN Shih-Ta Michael, Mr. LEE Siang Chin and Mr. Nobuo OYAMA was revised from HK\$300,000 to HK\$360,000 with effect from 22 November 2017.

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 8 and Note 38 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 8 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.

Report of the directors

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 Group's five largest customers (in terms of AUM as of 31 December 2017) accounted for 13% of the Group's total fee income, and the Group's five largest suppliers accounted for 49% of the Group's distribution fee expenses for the year ended 31 December 2017.

The Group's largest customer (in terms of AUM as at the end of year) accounted for approximately 2% of the Group's total fee income whereas the Group's largest supplier accounted for approximately 11% of total distribution fee expenses.

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 material beneficial interest in the Group's top five largest customers or suppliers.

Business review

The business reviews of the Group for the year ended 31 December 2017 is set out in the sections headed "Chairman's Statement", "Report of the Chief Executive Officer", "Financial review", "Corporate governance report", "Environmental, social and governance report" and "Consolidated financial statements" of this Annual Report.

During the year, in addition to compliance with laws and regulations relating to environmental areas, the Group also complied with other relevant laws and regulations that have a significant impact on the Company.

Disclosures on risk management and environmental policies

Details of disclosures on risk management and environmental policies are set out in the "Corporate governance report" and the "Environmental, social and governance report" of this Annual Report.

Auditor

The consolidated financial statements for the year ended 31 December 2017 have been audited by PricewaterhouseCoopers, who retire and, being eligible, offer themselves for reappointment.

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

On behalf of the Board

Dato' Seri CHEAH Cheng Hye

Chairman and Co-Chief Investment Officer

Hong Kong, 12 March 2018

Corporate governance report

The Board of Directors of the Company (the “Board” or “Directors”) strives to attain and maintain high standards of corporate governance as it believes that effective corporate governance practices are fundamental to enhancing shareholder value and safeguarding interests of shareholders, clients and other stakeholders. In running a regulated business, the Group adopts sound corporate governance principles that emphasize a quality Board, effective risk management and internal control, stringent compliance practices and transparency and accountability to all stakeholders.

In the Directors’ opinion, the Company has complied with the code provisions set out in the Corporate Governance Code (the “CG Code”) as stated in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) (the “Listing Rules”) throughout the year of 2017. The Company continued to maintain high standards of corporate governance and business ethics, and to ensure the full compliance of our operations with applicable laws and regulations.

Compliance with the Model Code

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. The blackout periods in respect of transactions in securities of the Company by Directors also apply to all staff of the Group.

Board of Directors

The Board of which over one third of the Board members are Independent Non-executive Directors, is responsible for overseeing and directing the senior management of the Company. The major duties of the Board include:

- Formulating the vision of the Group;
- Reviewing and approving the interim and final results of the Group;
- Recommending any final and special dividends to the shareholders of the Group;
- Reviewing and approving, if considered fit, the business plans and financial budgets of the Group;
- Reviewing the business and financial updates of the Group;
- Ensuring a high standard of corporate governance, compliance, risk management and internal control; and
- Overseeing the performance of senior management.

All Directors have separate and independent access rights to the senior management about the conduct of the business and development of the Company. In order to facilitate the Directors in discharging their duties, a flash report and follow by a comprehensive monthly management report incorporating financial highlights, management fee analysis, expenses analysis, fund flows summary, treasury operations performance and segment information has been circulated to the Directors. The flash report and the management report would be released to the Directors as soon as practicable after the month end.

The Board held 4 meetings in 2017 and the attendance record of each Director at the board meetings is set out below:

	No. of board meetings attended/held
Executive Directors	
Dato’ Seri CHEAH Cheng Hye (<i>Chairman</i>)	4/4
Mr. SO Chun Ki Louis	4/4
Dr. AU King Lun	4/4 (Note)
Ms. HUNG Yeuk Yan Renee	4/4
Independent Non-executive Directors	
Dr. CHEN Shih-Ta Michael	4/4
Mr. LEE Siang Chin	4/4
Mr. Nobuo OYAMA	4/4

Note: Dr. AU King Lun was appointed as Executive Director on 7 March 2017.

Corporate governance report

The Group ensures that appropriate and sufficient information is provided to Directors in a timely manner to keep them abreast of the Group's latest developments thereby assisting them in the discharge of their duties.

The Chairman had meetings with the Independent Non-executive Directors without the presence of Executive Directors in 2017. The Chief Executive Officer also had several private discussion sections with the Independent Non-executive Directors.

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 the Directors had received training/briefing which covered topics in directors' duties and liabilities, continuing obligations of a listed company, corporate governance and compliance issues after their appointments. Ongoing updates of any applicable laws and regulations were provided by the Company to the Directors in a reasonable time frame.

According to the records provided by the Directors, a summary of training received by the Directors during 2017 is as follows:

	Type of continuous professional development programmes
Executive Directors	
Dato' Seri CHEAH Cheng Hye (<i>Chairman</i>)	A, B
Mr. SO Chun Ki Louis	A, B
Dr. AU King Lun	A, B (Note)
Ms. HUNG Yeuk Yan Renee	A, B
Independent Non-executive Directors	
Dr. CHEN Shih-Ta Michael	B
Mr. LEE Siang Chin	B
Mr. Nobuo OYAMA	B

Note: Dr. AU King Lun was appointed as Executive Director on 7 March 2017.

Notes: A: Attending seminars and courses relating to regulations, updates and development on fund management business
B: Reading materials relating to the latest development of the Listing Rules

Each of the Executive Directors entered into a service contract with the Group and each of the Independent Non-executive Directors entered into a service contract with the Company for a term of one year. Under the Company's articles of association, one-third of the Directors, who have served longest on the Board, must retire, thus becoming eligible for re-election at each annual general meeting.

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 and professional indemnity insurance coverage since 2007, which is reviewed on an annual basis, for liabilities arising out of corporate activities from being the Directors and senior management of the Group.

Corporate governance report

Chairman and Chief Executive Officer

The Chairman of the Board, Dato' Seri CHEAH Cheng Hye, chairs all the board meetings and general meetings. He is leading the overall business and investment strategies of the Group. The Chief Executive Officer, Dr. AU King Lun, is responsible for overall business development of the Group. He assumes a leadership role in devising corporate strategy, as well as managing the Company's business operations and corporate affairs.

Board committees

The Board has established the following committees with specific responsibilities as described in the respective terms of reference available on the Company's and/or the Stock Exchange's website(s):

1. 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 include providing an independent review of the effectiveness of the financial reporting process, certain corporate governance functions, as well as risk management and internal control systems. The Audit Committee also oversees the appointment, remuneration and terms of engagement of the Company's auditor, as well as their independence. The Audit Committee comprises Dr. CHEN Shih-Ta Michael, Mr. LEE Siang Chin and Mr. Nobuo OYAMA, all of which are Independent Non-executive Directors. The Audit Committee is chaired by Mr. LEE Siang Chin.

The Audit Committee held four meetings in 2017. The Chief Executive Officer, the Chief Operating Officer, the Chief Administrative Officer, the Chief Compliance Officer, the Head of Internal Audit, the Chief Financial Officer, the Risk Manager, and the Company Secretary were normally invited to attend the meetings and representatives of the Auditor also joined three meetings involving the discussion of the Group's interim and annual results. The attendance record of each member at the Audit Committee meetings is set out below:

	No. of Audit Committee meetings attended/held
Mr. LEE Siang Chin (<i>Chairman</i>)	4/4
Dr. CHEN Shih-Ta Michael	4/4
Mr. Nobuo OYAMA	4/4

In 2017, the Audit Committee reviewed, discussed and/or approved the issues related to:

- The Group's interim and annual results, preliminary announcements and reports and recommendations of their major opinions to the Board.
- The auditor's remuneration (including the non-audit services) and its terms of engagement.
- The treasury activities and liquidity of the Group.
- The 2018 external and internal audit plans.
- The reports prepared by risk management, compliance and corporate audit departments.
- The risk management framework and risk control self-assessment summary of the Group.
- The establishment of an approval procedure regarding the corporate transactions/matters

In order to further enhance independent reporting, the members met in separate private sessions with the Auditor once a year without the presence of management.

Corporate governance report

2. 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 include determining the policy and structure for the remuneration of Executive Directors and senior management, reviewing incentive schemes and Independent Non-executive Directors' service contracts, and confirming the performance based remuneration packages for all Directors and senior management. The Remuneration Committee comprises Dato' Seri CHEAH Cheng Hye, Mr. SO Chun Ki Louis (Note 1), Dr. CHEN Shih-Ta Michael, Mr. LEE Siang Chin 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 2017. The attendance record of each member at the Remuneration Committee meetings is set out below:

	No. of Remuneration Committee meetings attended/held
Dr. CHEN Shih-Ta Michael (<i>Chairman</i>)	3/3
Dato' Seri CHEAH Cheng Hye	3/3
Mr. LEE Siang Chin	3/3
Mr. Nobuo OYAMA	3/3
Mr. SO Chun Ki Louis	2/2 (Note 1)
Dr. AU King Lun	1/1 (Note 2)

Notes:

1. Mr. SO Chun Ki Louis was appointed as member of Remuneration Committee on 7 March 2017.
2. Dr. AU King Lun was appointed as member of Remuneration Committee on 18 January 2017 and ceased as member of Remuneration Committee on 7 March 2017.

In 2017, the Remuneration Committee reviewed, discussed and/or approved the issues related to:

- The remuneration level for Directors and senior management for the year 2018 which was based on individual performance with reference to an independent salary survey report.
- The bonus allocation to the Directors and senior management with reference to the Group's financial results and individual performance.
- The renewal of service contracts of Independent Non-executive Directors.
- The amendments to the Management Bonus Scheme.

3. Nomination Committee

The Company established the Nomination Committee on 13 March 2012. The primary duties of the Nomination Committee are to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy. The Nomination Committee comprises Dato' Seri CHEAH Cheng Hye, Dr. CHEN Shih-Ta Michael, Mr. LEE Siang Chin, Mr. Nobuo OYAMA and Dr. AU King Lun (Note), three of which are Independent Non-executive Directors. The Nomination Committee is chaired by Dato' Seri CHEAH Cheng Hye.

Corporate governance report

The Nomination Committee held one meeting in 2017. The attendance record of each member at the Nomination Committee meeting is set out below:

	No. of Nomination Committee meeting attended/held
Dato' Seri CHEAH Cheng Hye (<i>Chairman</i>)	1/1
Dr. CHEN Shih-Ta Michael	1/1
Mr. LEE Siang Chin	1/1
Mr. Nobuo OYAMA	1/1
Dr. AU King Lun	1/1 (Note)

Note: Dr. AU King Lun was appointed as member of Nomination Committee on 18 January 2017.

In 2017, the Nomination Committee reviewed, discussed and/or approved the issues related to:

- Reviewing and recommending the structure, size and composition of the Board with reference to the board diversity policy.
- Assessment of the independence of Independent Non-executive Directors.
- Offering recommendation to the Board on relevant matters relating to the re-appointment of Directors in the forthcoming annual general meeting.

During 2016, the Nominated Committee nominated and recommended Dr. AU King Lun to the board as an Executive Director and his appointment was approved by the board on 7 March 2017. Apart from such nomination and recommendation, no new Director has been selected or recommended for directorship during 2017.

4. 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. As at 31 December 2017, the Risk Management Committee comprises Dr. AU King Lun, Mr. Roger Anthony HEPPER, Ms. LEE Vivienne, Mr. MO Chun Wah, Jonathan, Mr. SO Chun Ki Louis and Ms. WONG York Ying, Ella. The Risk Management Committee is chaired by Dr. AU King Lun.

The Risk Management Committee held seven meetings in 2017. In the meetings, the members reviewed, discussed and/or approved the issues related to:

- The Group's risk management framework and system of internal control.
- Regular assessments on major risks.
- Risk control self-assessment update.
- Personal data handling policy.
- Investment, reputation and liquidity risk management.
- Regulatory updates.
- Items requiring risk acknowledgement to deal with risk identified but not fully mitigated.
- Internal audit plan.
- Existing backend system decommission.

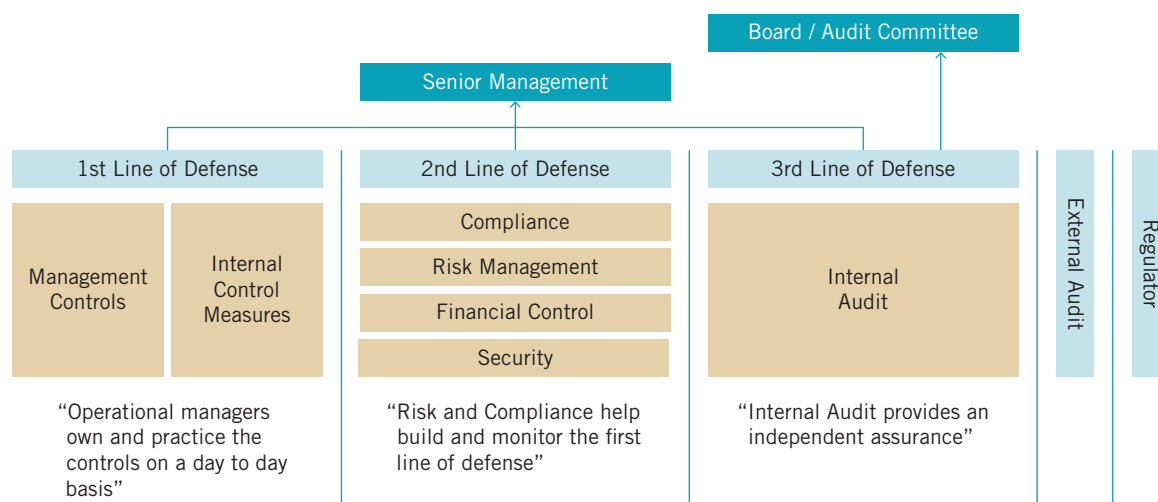
Corporate governance report

Risk Management and Internal Controls

The Board acknowledges its responsibility for overseeing the risk management and internal control systems of the Group and reviewing their effectiveness at least annually. The Audit Committee assists the Board in fulfilling its oversight and corporate governance roles in the Group's financial, operational, compliance, legal, risk management and internal controls, and the resourcing of the finance and internal audit functions. The Group has established an organizational structure with defined levels of responsibility and reporting procedures. The Risk Management Committee, Legal & Compliance department and Group Internal Audit assist the Board and the Audit Committee in the review of the effectiveness of the Group's risk management and internal control systems on an ongoing basis. The directors and the Audit Committee are kept regularly apprised of significant risks that may impact on the Group's performance. Appropriate policies and controls have been designed and established to ensure that assets are safeguarded against improper use or disposal, relevant rules and regulations are adhered to and complied with, reliable financial and accounting records are maintained in accordance with relevant accounting standards and regulatory reporting requirements, and key risks that may impact on the Group's performance are appropriately identified and managed. The systems and internal controls can only provide reasonable and not absolute assurance against material misstatement or loss, as they are designed to manage, rather than eliminate the risk of failure to achieve business objectives.

The Group's risk management framework is guided by the "Three Lines of Defense" model as shown below:

Three Lines of Defense Model of Value Partners Group



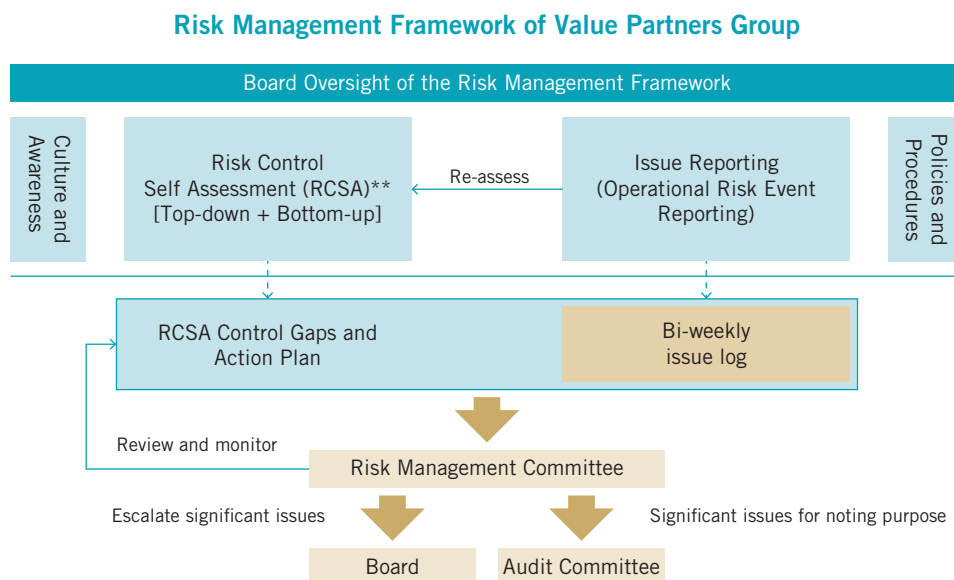
The Risk Management Committee which, via the Chief Operating Officer, co-ordinates enterprise risk management activities and reviews significant aspects of risk management for the Group, reports to the Audit Committee at each regularly scheduled meeting. Subjects covered, amongst other things, include significant risks of the Group and the appropriate mitigation and/or transfer of identified risks. The operating units of the Group, as risk owners, identify, evaluate, mitigate and monitor their own risks, and report such risk management activities to Risk Management and Compliance departments on an annual basis. Assessment on new risk is performed for new business initiatives.

Corporate governance report

Group Internal Audit reports to the Audit Committee at each regularly scheduled meeting throughout the year on the results of their activities during the preceding period pertaining to the adequacy and effectiveness of internal controls, including but not limited to, any indications of failings or material weaknesses in those controls. Group Internal Audit adopts a risk-and-control-based audit approach. The annual work plan of Group Internal Audit covers major activities and processes of the Group's operations, businesses and service units. Special reviews are also performed at management's request. The results of these audit activities are communicated to the Audit Committee. Audit issues are tracked, followed up for proper implementation, and their progress are reported to the Audit Committee periodically. Group Internal Audit provides independent assurance to the Board, the Audit Committee and the executive management of the Group on the adequacy and effectiveness of internal controls for the Group. The Head of Group Internal Audit reports directly to the Chairman of the Audit Committee and the Chief Executive Officer, with an indirect reporting line to the Chief Operating Officer who has the responsibility to assist Group Internal Audit resolve issues on a daily basis.

The senior management of the Group, supported by the Risk Management Committee, Legal & Compliance department and Group Internal Audit, is responsible for the design, implementation and monitoring of the risk management and internal control systems, and for providing regular reports to the Board and the Audit Committee on the effectiveness of these systems.

The following diagram illustrates the key processes used to identify, evaluate and manage the Group's significant risks:



** To be updated annually/whenever there is any significant change in the business process(es) and control(s).

Corporate governance report

The Group has adopted policies and procedures for assessing and, where prudent, improving the effectiveness of its risk management and internal control systems, including requiring the executive management of the Group to regularly assess and at least annually to personally certify that such matters are appropriate and functioning effectively in the belief that this will enhance the corporate governance of the Group and its business practices in the future.

The Group has embedded its risk management systems into the core operating practices of the business. On an ongoing basis, the respective operating units of the Company will review and assess the status of potential risks which may impact on their ability to achieve their business objectives and/or those of the Company. Any incidents that arise in the year are investigated to assess if control procedures can be enhanced, whilst new initiatives are subjected to a new risk approval process to identify and address potential new risks that could arise. This review process includes assessment as to whether the existing system of internal controls continues to remain relevant, adequately addresses potential risks, and/or should be supplemented. The results of these reviews are recorded in the logs for monitoring and incorporated into the Group's Risk Control Self-Assessment for analysis of potential strategic implications and for regular reporting to the senior management and directors of the Company.

The Audit Committee has established and oversees a whistleblower policy and a set of comprehensive procedures whereby employees, customers, suppliers and other concerned parties can report any actual or suspected occurrence of improper conduct involving the Company, and for such matters to be investigated and dealt with efficiently in an appropriate and transparent manner. The Chairman of the Audit Committee has designated the Head of Group Internal Audit and/or the Chief Operating Officer to receive on his behalf any such reports, to oversee the conduct of subsequent investigations, and to provide information, including recommendations arising from any investigations to them for consideration by the Audit Committee.

The Group regulates the handling and dissemination of inside information as set out in the Corporate Responsibility Policy and various subsidiary procedures to ensure inside information remains confidential until the disclosure of such information is appropriately approved, and the dissemination of such information is efficiently and consistently made.

During 2017, the Risk Management Committee and Legal & Compliance department have worked closely with the operating units, senior management, and the directors to enhance the risk management systems. Such activities have included, amongst other matters recruiting additional experienced staff to act as Responsible Officers to companies within the Group, implementing the new "Manager-in-Charge" regime requirements introduced by the Securities and Futures Commission (the "SFC"), introducing several new internal control procedures, increasing the number of training sessions and risk workshops; further standardization of risk reporting and quantification; more closely aligning the assessment of internal controls with their potential risks; and increasing the depth and frequency of interaction with the designated directors on the Company's risk management system's design, operation, and findings. The Chief Operating Officer, Risk Management Committee and Compliance department have presented update reports to the Board and the Audit Committee on the results of the annual Risk Control Self-Assessment and other control procedures that have been implemented to establish and maintain effective risk management and internal control systems. Such work has assisted the directors in the review of the effectiveness of the risk management and internal control systems of the Group during the year.

Corporate governance report

During 2017, Group Internal Audit conducted selective reviews of the effectiveness of the systems of risk management and internal controls of the Group over financial, operational and compliance controls with emphasis on information technology and security, data privacy and protection, business continuity management and expansion to overseas offices. At the request of the Audit Committee, Group Internal Audit will expand the scope of their reviews further in 2018. Additionally, the heads of major business and corporate functions of the Group were required to undertake control self-assessments of their key controls. These results were assessed by the Chief Operating Officer, Group Risk Manager and Group Internal Audit and reported to the Audit Committee, which then reviewed and reported the same to the Board. During the year key areas of focus included controls within the rapidly expanding Fixed Income Unit, oversight of key third party service providers and the establishment of a new Private Equity Real Estate business. The review revealed no serious shortcomings in the Groups' internal control systems within the year. The decision to exit the small loans business in China and onshore asset management business in Taiwan simplified the risks associated with managing those units. The Audit Committee and the Board were not aware of any areas of concern that would have a material impact on the financial position or results of operations of the Group and considered the risk management and internal control systems to be generally effective and adequate including the adequacy of resources, staff qualifications and experience, training programs and budget of the accounting, internal audit and financial reporting 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 to be provided. The audit fee for the year ended 31 December 2017 was approximately HK\$4.2 million. In addition, the auditor of the Company also provided tax services to the Group in 2017 and the fee was approximately HK\$0.6 million.

Preparation of Financial Statements

The Directors acknowledge their responsibility for preparing consolidated financial statements of the Group for the year ended 31 December 2017 (the "Financial Statements").

Communication with Shareholders

The Company has adopted a shareholders communication policy to ensure that Shareholders, and in appropriate circumstances, the investment community at large, are provided with ready, equal and timely access to balanced and understandable information about the Company, in order to enable shareholders to exercise their rights in an informed manner, and to allow Shareholders and the investment community to engage actively with the Company.

1. Information disclosure

The Company endeavours to disclose all material information about the Group to all interested parties as timely as possible. The Company maintains a website at www.valuepartners-group.com to keep shareholders and investors posted of the latest business developments, interim and annual results announcements, financial reports, public announcements, corporate governance practices and other relevant information of the Group.

Corporate governance report

Since 2008, the Company has voluntarily commenced releasing the information of the unaudited assets under management of the Group on a monthly basis to further increase the transparency of the Company. Starting from 2013, we also disclosed the fund flow information of the funds managed by the Group on a quarterly basis.

To ensure our investors and shareholders have a better understanding of the Company, our Chief Executive Officer and Chief Financial Officer communicate with research analysts, investors and shareholders in an on-going manner. In addition, they attend major investors' conferences and participate in international non-deal roadshows to explain the Company's financial performance and business strategy. The Company actively distributes information on the annual and interim results, an archive of the webcast is on the Company's website so that the results presentation is easily and readily accessible to investors and shareholders all over the world.

2. General meetings with shareholders

The Company regards the annual general meeting ("AGM") an important event as it provides a platform for the Board to communicate with the shareholders. The notice of AGM is sent to the shareholders at least 20 clear business days prior to the date of AGM. The Chairman himself takes the chair in the AGM to ensure shareholders' views and questions are well communicated and answered by the Board. Separate resolutions are proposed on each substantially separate issue at the general meetings.

The attendance records of each Director at the AGM for the year 2017 are set out below:

	No. of AGM attended/held
Executive Directors	
Dato' Seri CHEAH Cheng Hye (<i>Chairman</i>)	1/1
Mr. SO Chun Ki Louis	1/1
Dr. AU King Lun	1/1 (Note)
Ms. HUNG Yeuk Yan Renee	1/1
Independent Non-executive Directors	
Dr. CHEN Shih-Ta Michael	1/1
Mr. LEE Siang Chin	1/1
Mr. Nobuo OYAMA	1/1

Note: Dr. AU King Lun was appointed as Executive Director on 7 March 2017.

We had around 200 shareholders or their representatives participated in our annual general meeting for the year 2017 and all the resolutions proposed were passed by poll voting in the meeting. Representatives of the auditor also attended this AGM. Poll results are made publicly available on the same day of the meeting, typically in the space of a few hours, to ensure the timely disclosure of information.

Corporate governance report

3. Shareholders' rights

The investor relations department of the Company responds to emails, letters and telephone enquiries from the public, shareholders and investors. Any enquiry on matters related to the Company and to be addressed to the Board may be put in writing and sent to the principal office of the Company in Hong Kong or through an email to vp@vp.com.hk.

Pursuant to the articles of association of the Company, the Board may call an extraordinary general meeting whenever it thinks fit. 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 Company Secretary, 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.

Shareholders are welcomed to suggest proposals relating to the operations, strategy and/or management of the Group to be discussed at general meeting. Proposal shall be sent to the Board or the Company Secretary by written requisition. Pursuant to the articles of association of the Company, shareholders who wish to put forward a proposal should convene an extraordinary general meeting by following the procedures set out in above paragraph.

The memorandum and articles of association of the Company is available on the Company's website.

Environmental, social and governance report

1. About the Report

This is the second Environmental, Social and Governance (“ESG”) report issued by the Company. The report discloses the sustainability initiatives by the Group and was prepared in accordance with the Environmental, Social and Governance (“ESG”) Reporting Guide set out in Appendix 27 of the Rules of Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“HKEx”). Unless otherwise specified, the time frame of this report is from 1 January 2017 to 31 December 2017.

The Group seeks to facilitate the long-term sustainable development of the environment and the society in which it operates in, and is therefore committed to minimizing any negative social and environmental impacts resulting from our operations. The Group values the importance of compliance with all relevant laws and regulations.

The Board of Directors provides the overall direction on management of sustainability issues and ESG risks. Reporting and disclosure of ESG initiatives is implemented by company secretarial services with approval from the Board, which is also responsible for collaborating with other functional areas on the integration and implementation of sustainability initiatives throughout the company.

The asset management business of the Group primarily operate from our leased offices located at Hong Kong, Singapore, Shanghai, Shenzhen, Beijing and London, and hence all Group policies and strategies reported hereafter are applicable to our offices. Relevant environmental indicators will be reported for our Hong Kong headquarters and for our offices in Singapore and Shanghai where applicable. Environmental data for our Beijing, Shenzhen and London offices will be excluded due to their immaterial environmental footprint.

2. Operating Practices

The Group has been a pioneering force in the Asian asset management industry since we first arrived on the scene in 1993. Over the years, we have adhered to the same goals and values: to seek the very best investment opportunities for our clients among under-followed and out-of-favor stocks in the Asia Pacific region. Our long-term success has been founded on the spirit of putting the interest of our clients first, while celebrating seamless co-operation among our team members. To ensure stable business performance and alignment of interests in the long run, the Group is structured to have senior management taking up a majority of the company’s shares.

We recruit employees who share our values and are committed to putting the interest of our clients first, while being fully dedicated to providing the best services to our clients. As a mechanism to improve incentives and to safeguard the interest of our clients, staff remuneration is based on a fixed salary and a performance-based bonus.

Our senior managers have worked at the Group for a long period of time. This demonstrates the talent stability within the Company and is an important indicator of the effectiveness and cohesion within our team. Our investments in providing training and development opportunities for our people are also important contributions to the Group’s successful talent retention history.

Environmental, social and governance report

2.1. Product Responsibility

The Group's investment strategy is to invest through a disciplined approach, a philosophy which has long been embedded in our overall investment principles. Through applications of robust management systems and detailed investment process guidelines, our fund managers are expected to spend much of their time visiting companies, meeting with their management and talking to their customers and suppliers to ensure that each of our investment decisions is well-informed. All investments carried out by the Company follow through a stringent five-step approach which includes initial screening, preliminary review, detailed analysis, portfolio construction to portfolio execution, monitoring and risk management.

The Group invests with an uncompromising approach to a meticulously disciplined and consistent investment process, thereby steering clear of market bubbles and forming prudent asset allocation strategies with long-term financial goals. The investment team ensures that sufficient research, analyses and due diligence are conducted with reasonable care for all investments made. Our fund managers do not deviate from the value investing approach and avoid investing in market fads which can take away profits as fast as they are made.

As a demonstration of the Group's value-driven investment approach, fund managers are encouraged to consider under-appreciated stocks at initial screening phases, and are trained to identify investment opportunities that are often found in little-known stocks and out-of-favor business sectors. Such opportunities will then go through rigorous review and analysis processes prior to allocation to the investment portfolio.

The trading information of our clients is confidential and is handled with great care to avoid any data leakage or misuse. Disclosure of client trading information to outside parties without proper justification and consent is strictly prohibited. Information will only be disclosed on a "Need to Know" basis even among staff members. A client information privacy policy is in place to ensure the information from clients is handled in an appropriate way. Should service providers be required to work at our office during non-office hours, our employees are reminded to lock up all documents and switch off their monitors to minimize the risk of information leakage.

Additionally, the Group has stringent controls over staff dealings as stipulated in the Code of Ethics, and we always have priority on the interest of our clients. The staff dealing rules within our Code of Ethics requires all staff dealings to be monitored and it is a requirement for staff to disclose their holdings and trading accounts for the Company to identify improper trades. Any breach of these rules will be treated seriously and may lead to disciplinary action.

2.2. Supply Chain Management

The Group's approach for sustainability is not only confined to our investment products. The embedded culture to establish long-term and mutually beneficial relationships also extends to our suppliers. With the objective of pursuing efficient, effective and transparent processes in goods and services acquisition, the Group has established a Policy on Procurement to reinforce consistency with the expense policy and to fully utilize each dollar of expenditure.

Our Policy on Procurement stipulates the requirement for a competitive bid for all goods and services which amount to over HK\$50,000 from non-approved vendors. To uphold the principle of fairness and transparency, such bids will require at least two sources of quotations in a fair and open manner.

However, the selection consideration of suppliers is not confined to the quoted price alone. Other factors such as product quality, service quality, reliability and suitability are also viewed upon as important factors for consideration.

In addition, in order to maintain the quality of goods and services procured, the list of approved vendors is reviewed annually and will be placed against competitive bids if vendor performance or quality falls short of the requirements set out by the Group.

Environmental, social and governance report

2.3. Anti-corruption

The Group considers business integrity and compliance with all applicable laws and regulations as fundamental expectations to be observed during all work processes. The Company has zero tolerance for corruption and money laundering and considers initiatives against such malpractices as essential codes of conduct for all employees within the Company. If and when necessary, we will fully cooperate with enquiries or requests from regulators. As such, the Group has established a Policy on Prevention of Money Laundering and Terrorist Financing Policy and Procedures, which are specifically designed to ensure that our employees fully understand their obligations and responsibilities at work. These policies outline and require all employees to be in compliance with all relevant legislation and codes while making investment decisions. Applicable legislation and codes include: Anti-Money Laundering and Counter-Terrorist Financing Ordinance (“AMLO”), Guideline on Anti-Money Laundering and Counter-Terrorist Financing (“AML Guideline”), Drug Trafficking (Recovery of Proceeds) Ordinance (“DTROP”), Organized and Serious Crimes Ordinance (“OSCO”), United Nations (Anti-Terrorism Measures) Ordinance (“UNATMO”), Weapons of Mass Destruction (Control of Provision of Services) Ordinance (“WMD(CPS)O”) and Code of Conduct for Persons Licensed by or Registered with the SFC.

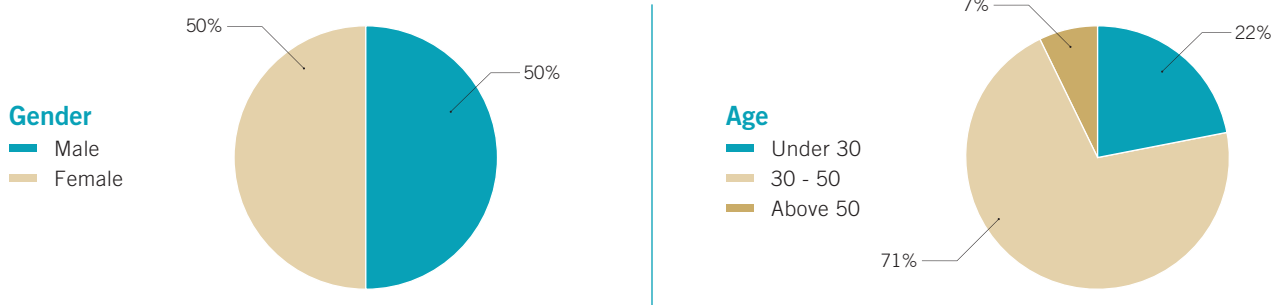
Unethical or fraudulent behavior is generally prohibited. Directors, officers, employees and other representatives are required to adhere to the policy as a condition of their employment and engagement to the Group.

In addition, the Code of Ethics clearly states that employees shall act honestly and professionally with the client’s best interest and in line with market expectations on integrity. Conflict of interest will be avoided to the largest extent and potential conflicts with clients will be disclosed if unavoidable.

3. Employment and Labor Practices

Our ability to provide premium investment strategies and financial services to our clients relies on the ability of our valued talents in providing professional and informed advice to our distinguished clients. As such, we greatly cherish the services provided to us by our employees and understand the importance of providing our employees with competitive remuneration and welfare as they well deserve. The Group complies with relevant local laws and regulations on employment and labor. In addition, we also provide equal opportunities for promotion and dedicate resources to work-related training and the personal development of our employees.

Workforce Distribution



Environmental, social and governance report

To improve employee welfare and to increase employee involvement in recreational activities, the Group has established a Recreation Committee which is responsible for initiating and organizing internal activities, voluntary services, sports events and annual dinners for the Group. The Recreation Committee is composed of staff from various departments. Opinions and suggestions on employee activities are welcomed from our staff.

3.1. Welfare and Labor Standards

The Group provides basic welfare benefits to our employees, including insurance schemes covering travel insurance and medical insurance for all full-time employees. Also, the Group provides rental reimbursement to our employees with a maximum amount of refundable rent of up to 40% of the employees' base compensation.

This year, the Recreation Committee arranged a good mix of outdoor and indoor activities for our employees. For example, Hiking Day, Family Day 2017 and DIY Natural Skincare Workshop were held to promote sportsmanship, work-life balance and workplace harmony. Health Week 2017 was a highlight of activities within the year; health talks, head to shoulder massages and light fitness training were provided in order to raise awareness on the importance of health to our employees. In addition, our Deputy Chairman and Co-Chief Investment Officer, Mr. Louis SO, sponsors green lunches for our employees every Monday to create a healthier and greener work environment.

The nature of our business requires the use of skilled talents and the Group is in full compliance with relevant laws and regulations on the use of child and forced labor. Our operations are in full compliance with The Employment of Children Regulations under the Employment Ordinance, which govern the employment of children in all economic sectors.

3.2. Development and Training

The Group's ability to retain talents relies on our ability to provide good career prospects and room for personal development. Our Training Policy is applicable to all full-time permanent employees of the Group and is designed to encourage our employees to further enrich their knowledge and skills. Our employees can also obtain relevant professional qualifications which will keep them informed of the latest trends in the industry and provide them with necessary professional knowledge. Employees with tenure of over 6 months are eligible for company sponsorship for a wide variety of courses, seminars, conferences and other training events. Such arrangements aim to inoculate a sense of shared accountability among the team and have been well received by our employees.

In 2017, the Human Resources Team organized training workshops and team-building exercises to help our colleagues achieve their career goals. In November, a one-day workshop – "Team for Embracing Change" was held at the Hong Kong Science Park to foster understanding and collaboration among our colleagues for better performance.

3.3. Health and Safety

The Group is committed to providing a safe workplace to our employees and their health is always our prime concern. Every reasonable safety precaution within the workplace will be considered as a means to ensure the safety of our employees. This begins with compliance with all applicable regulations on health and safety. Policies on ensuring health and safety at the workplace are established and employees are expected to adhere to the relevant policies as stipulated in the Employee Handbook. This ranges from the Group's prohibition of any acts of violence or threats to use of illicit drugs and/or gaming within work premises. In addition, to minimize risk to employees or their fellow colleagues, employees are required to take appropriate measures and report any cases of personal injury sustained at work or contraction of infectious diseases to the direct manager and our Human Resources Department.

Environmental, social and governance report

Regarding fire safety issues within the workplace, employees and visitors are also required to vacate the building via fire exits and assemble at street level on the sounding of the fire alarm. An individual will be appointed to check that all colleagues are present at the assembly point and detailed Procedures on Fire Evacuation are available at the Administration Department for all relevant premises.

3.4. Summary of Social Performance

	Unit	2017
Employment Practice		
Total permanent workforce	No. of people	211
Total permanent workforce by age group		
Under 30	No. of people	44
30 – 50	No. of people	151
Above 50	No. of people	16
Total permanent workforce by gender		
Female	No. of people	105
Male	No. of people	106

4. Community Involvement

The Group strives to be a responsible corporate citizen and dedicates resources to those who are in need within our community. We begin with the upbringing of our children, who are the future pillars of the community. We believe that all children should be cared for and be provided with adequate educational opportunities. Therefore, our employees are encouraged to serve as volunteers at organizations promoting child welfare, and to nurture young talents in society. Paid CSR leave is granted to colleagues who participate in such meaningful activities. We also sponsor community activities and donates to charitable organizations.

During the year, the Group worked closely with Heep Hong Society in various community involvement activities. Heep Hong Society is a registered charitable organization which provides professional training and education to children and youths of different abilities and their families, with the mission of helping them develop their potential and lead a fulfilling life. We have established a long-standing relationship with Heep Hong Society and regularly attends the Expressive Art Fun Day. Our volunteers have had many fruitful and meaningful interactions with children with special education needs.

This year, the Group has worked with Hong Kong University of Science and Technology (“HKUST”) in nurturing young talents for the asset management industry. Representatives from Value Partners participated in a career seminar to provide advice and guidance to HKUST students.

On 29 November 2017, the Group actively participated in a charity event and celebration with the Hong Kong General Chamber of Commerce. With our sponsorship, an estimated 300,000 members of the public were able to enjoy free rides on Hong Kong trams and the Star Ferry.

On 2 December 2017, the Group’s staff and their children participated in the Flag Day organized by the Society for The Welfare of The Autistic Persons (SWAP), an organization which supports autistic persons and their families. Funds raised during the campaign were used for administrative and activity expenses.

Environmental, social and governance report

5. Environment

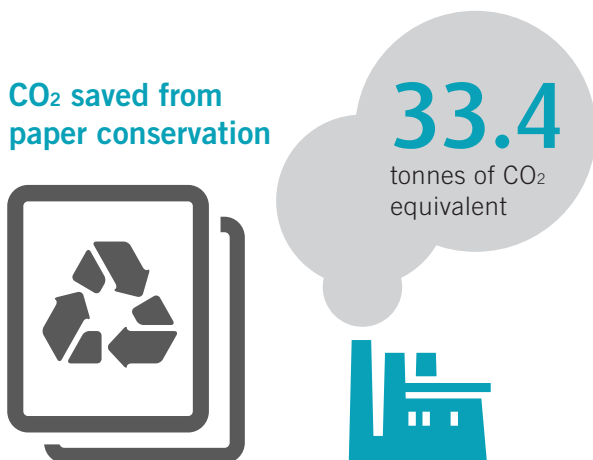
As a company with core reportable segment in asset management, the nature of the Group's business is office based and not energy intensive. Hence, the most material impact on the environment is confined to the premises in which our team operates. However, management considers it equally important to shoulder our part of the responsibility in the context of caring for the environment. Compliance with all applicable local environmental laws and regulations is the bottom line, and in addition, we will continue to strive for enhanced energy efficiency and reduced carbon emissions within our work premises. The following are some of our initiatives on environmental conservation.

5.1. Environmental Energy and Resources Management

The Group has established a series of energy and resources conservation initiatives. In order to reduce energy consumption, T5 fluorescent tubes with high energy efficiency are used in our offices. Office lighting, air conditioners, air purifiers and other electric appliances are switched off when they are not in use or automatically controlled with timers after office hours. Moreover, air conditioner filters and drainage conduits are maintained on a monthly basis to ensure that relevant appliances operate in an energy efficient manner. Water conservation initiatives have also been implemented in our daily operations.

To facilitate more efficient use of resources, the Group has utilized the Employee Self-service (ESS) platform and offers an online E-leave system for our employees. With the help of the E-leave system, paper applications are replaced by the online system, hence reducing our use of paper. In our offices, all printers are set to print on both sides by default to conserve paper. Moreover, we recycle where possible and send used resources such as office paper and toner to authorized recyclers for recycling.

During the year, Value Partners received the Certificate of CO₂ reduction by Confidential Materials Destruction Service Ltd., recognizing its efforts in waste paper recycling.



Environmental, social and governance report

5.2. Summary of Environmental Performances

	Unit	2017
Greenhouse gas (GHG) emissions¹ and intensity within the Group		
Direct GHG emissions (Scope 1 ²)	tonnes of CO ₂ equivalent (tonnes CO ₂ e)	4.9
Direct GHG emissions (Scope 1) intensity	tonnes CO ₂ e/employee	0.03
Indirect GHG emissions (Scope 2 ³)	tonnes CO ₂ e	314.6*
Indirect GHG emissions (Scope 2) intensity	tonnes CO ₂ e/employee	1.5*
Water consumption and intensity within the Group		
Water consumption	cubic metre	219.5
Water intensity	cubic metre/employee	1.2
Energy consumption and intensity within the Group		
Electricity consumption	MWh	454.8*
Electricity intensity	MWh/employee	2.2*
Fuel consumed within the Group		
Gasoline consumption	litre	1,795.4
Resources consumed within the Group		
Paper	tonnes	3.8*
Toner cartridges	pieces	233*
Waste disposed within the Group		
Non-hazardous waste	tonnes	5.2
Hazardous waste	tonnes	0
Resources recycled within the Group		
Paper	tonnes	7.0
Plastic	kg	105.2
Toner cartridges	pieces	161*

All environmental figures reported above indicate the environmental data of the Group's operation in Hong Kong, while data marked with * includes our mid-size operations in Singapore and Shanghai. Environmental data for our Beijing, Shenzhen and London offices was excluded due to their relatively small environmental footprint.

¹ The Group's GHG inventory includes carbon dioxide, methane and nitrous oxide. GHG emissions data is presented in carbon dioxide equivalent.

² Scope 1 emissions are direct GHG emissions from sources that are owned or controlled by us, such as emissions from gasoline used by the corporate fleet.

³ Scope 2 emissions are indirect GHG emissions from the generation of purchased or acquired electricity consumed by us.

Environmental, social and governance report

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Environmental, social and governance report

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Environmental, social and governance report

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Independent auditor's report

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

(Incorporated in Cayman Islands with limited liability)

Opinion

What we have audited

The consolidated financial statements of Value Partners Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 71 to 130, which comprise:

- the consolidated balance sheet as at 31 December 2017;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent auditor's report

Key Audit Matters (continued)

Key audit matters identified in our audit are summarised as follows:

- Fee income recognition
- Accounting for investment in a joint venture
- Valuation of investments classified as level 3 in the fair value hierarchy

Key Audit Matter	How our audit addressed the Key Audit Matter
<p>Fee income recognition</p> <p>For the year ended 31 December 2017, the Group has recognised fee income of HK\$4,105.9 million, which includes management fees of HK\$1,196.0 million and performance fees of HK\$2,570.9 million.</p> <p>We focused on this area due to the significance of the amount and the risks arising from the manual process involved in fee income recognition.</p> <p>The calculation of management fee and performance fee income is largely a manual process and there is an inherent risk of material misstatement due to the following:</p> <ol style="list-style-type: none"> 1. Interpretation of contractual terms from the relevant prospectus or investment management agreements; 2. Manual input of key contractual terms and fee rates in relevant spreadsheets; and 3. Manual input of details of assets under management obtained from the third party administrators. <p>The Group's disclosures of fee income are detailed in note 6 to the consolidated financial statements.</p>	<p>Our work included an assessment and testing of Management's key controls on fee income recognition:</p> <ol style="list-style-type: none"> 1. We evaluated and tested the key controls in place over the calculation of management fee and performance fee income; 2. We evaluated the independent internal control reports issued by relevant third party administrators; and 3. We evaluated and tested the controls in place over the maintenance of records of assets under management, including the reconciliation to custodian statements. <p>We also performed the following tests on a sample basis:</p> <ol style="list-style-type: none"> 1. We reviewed the key contractual terms and agreed the fee rates against the contractual terms from the relevant prospectus or investment management agreements; 2. We checked the accuracy of the records of assets under management by examining relevant third party custodian statements; 3. We checked the mathematical accuracy of the fee calculations; and 4. We checked the settlement of the fee income. <p>No material issues arose from the above testing.</p>

Independent auditor's report

Key Audit Matters (continued)

Key Audit Matter

How our audit addressed the Key Audit Matter

Accounting for investment in a joint venture

As at 31 December 2017, the Group held an investment in a joint venture, accounted for under the equity method, amounting to HK\$190.9 million, which included an assessment of the fair value of the joint venture's underlying investments in real estate properties as at 31 December 2017. The determination of such fair value is considerably more subjective given the lack of availability of market-based data.

We focused on the accounting for the investment in joint venture due to the significance of the amount and the judgment involved in determining the value of the underlying investments in real estate properties held by the joint venture.

The Group's disclosures of the investment in joint venture is detailed in note 3.3 and note 16 to the consolidated financial statements.

Our work included an assessment of Management's key controls on the valuation of the joint venture's underlying investments in real estate properties:

1. We obtained an understanding of the valuation methodology and the process employed by Management with respect to determining the fair value of the joint venture's underlying investments in real estate properties.

We also performed the following tests:

1. We evaluated the appropriateness of the valuation methodology and valuation technique used by Management for the joint venture's underlying investments in real estate properties; and
2. We evaluated and validated the key inputs and assumptions used by management against supporting documentation and relevant valuation sources.

No material issues arose from the above testing.

Independent auditor's report

Key Audit Matters (continued)**Key Audit Matter****How our audit addressed the Key Audit Matter****Valuation of investments classified as level 3 in the fair value hierarchy**

As at 31 December 2017, the Group's investments classified as level 3 in the fair value hierarchy included a loan note amounting to HK\$413.2 million and an equity swap amounting to HK\$53.3 million.

The loan note, which is a private investment, and the equity swap, which is an over-the-counter derivative financial instrument, have no active market and have been categorized within level 3 of the fair value hierarchy. The determination of level 3 prices is considerably more subjective given the lack of availability of market-based data.

We focused on the valuation of the loan note and equity swap due to the significance of the amounts and the judgment involved in determining fair value of these investments.

The Group's disclosures of the loan note and derivative financial instrument are detailed in notes 3.1 and 20 to the consolidated financial statements.

Our work included an assessment of Management's key controls on the valuation of the investments classified as level 3 in the fair value hierarchy, including the loan note and the equity swap:

1. We obtained an understanding of the valuation methodology and the process employed by Management with respect to determining the fair value of investments classified as level 3 in the fair value hierarchy.

We also performed the following tests:

1. We evaluated the appropriateness of the valuation methodologies and valuation techniques used by Management for investments classified as level 3 in the fair value hierarchy; and
2. We evaluated and validated the key inputs and assumptions used by Management against supporting documentation and relevant pricing sources.

No material issues arose from the above testing.

Independent auditor's report

Other Information

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and Audit Committee for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We 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.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Independent auditor's report

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Independent auditor's report

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Marie-Anne Sew Youne, Kong Yao Fah.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 12 March 2018

Consolidated statement of comprehensive income

For the year ended 31 December 2017

	Note	2017 HK\$'000	2016 HK\$'000
Income			
Fee income	6	4,105,950	1,398,604
Distribution fee expenses		(846,092)	(770,282)
Net fee income		3,259,858	628,322
Other income	7	39,271	41,143
Total net income		3,299,129	669,465
Expenses			
Compensation and benefit expenses	8	(953,971)	(348,370)
Operating lease rentals		(27,799)	(27,513)
Other expenses	9	(110,010)	(95,782)
Total expenses		(1,091,780)	(471,665)
Operating profit (before other gains/losses)		2,207,349	197,800
Net gains/(losses) on investments		198,808	(1,082)
Net losses on investments held-for-sale	21	–	(2,024)
Gains on disposal of a subsidiary	33.2	11,173	–
Others		17,729	(17,444)
Other gains/(losses) – net	10	227,710	(20,550)
Operating profit (after other gains/losses) and profit before tax		2,435,059	177,250
Tax expense	11	(348,495)	(31,230)
Profit for the year from continuing operations		2,086,564	146,020
Discontinued operations			
Loss for the year from discontinued operations	33.1	(38,480)	(13,430)
Profit for the year		2,048,084	132,590
Profit/(loss) for the year attributable to			
Owners of the Company			
– Continuing operations		2,086,564	149,275
– Discontinued operations		(38,480)	(11,728)
		2,048,084	137,547
Non-controlling interests			
– Continuing operations		–	(3,255)
– Discontinued operations		–	(1,702)
		–	(4,957)
Profit for the year		2,048,084	132,590

The notes on pages 76 to 130 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December 2017

	Note	2017 HK\$'000	2016 HK\$'000
Other comprehensive income/(loss) for the year			
– Items that have been reclassified or may be subsequently reclassified to profit or loss			
Fair value gains/(losses) on available-for-sale financial assets		19,578	(2,303)
Foreign exchange translation		17,013	(37,494)
Foreign exchange losses reclassified to profit or loss on disposal of foreign operations		31,065	–
Other comprehensive income/(loss) for the year	12	67,656	(39,797)
Total comprehensive income for the year		2,115,740	92,793
Total comprehensive income/(loss) for the year attributable to			
Owners of the Company			
– Continuing operations		2,122,411	134,788
– Discontinued operations		(6,671)	(34,586)
		2,115,740	100,202
Non-controlling interests			
– Continuing operations		–	(3,167)
– Discontinued operations		–	(4,242)
		–	(7,409)
Total comprehensive income for the year		2,115,740	92,793
Earnings/(loss) per share from continuing and discontinued operations attributable to owners of the Company (HK cents per share)			
Basic earnings/(loss) per share	13.1		
– Continuing operations		112.7	8.0
– Discontinued operations		(2.1)	(0.6)
		110.6	7.4
Diluted earnings/(loss) per share	13.2		
– Continuing operations		112.6	8.0
– Discontinued operations		(2.1)	(0.6)
		110.5	7.4

The notes on pages 76 to 130 are an integral part of these consolidated financial statements.

Consolidated balance sheet

As at 31 December 2017

	Note	2017 HK\$'000	2016 HK\$'000
Non-current assets			
Property, plant and equipment	17	7,710	10,603
Intangible assets	18	17,529	14,047
Investment in a joint venture	16	190,867	–
Deferred tax assets	29	122	15,384
Investments	20	1,511,107	734,229
Other assets	24	44,471	8,616
Loan portfolio, net	25	–	67,795
		1,771,806	850,674
Current assets			
Investments	20	127,474	41,756
Investments held-for-sale	21	–	14,875
Fees receivable	22	2,611,076	112,429
Loan portfolio, net	25	–	55,986
Amounts receivable on sale of investments		41,974	–
Prepayments and other receivables		84,676	33,040
Deposits with brokers		36,331	175,310
Time deposits		–	43,781
Cash and cash equivalents	23	2,204,704	2,629,131
		5,106,235	3,106,308
Current liabilities			
Investments	20	11,800	4,121
Accrued bonus		662,926	53,181
Distribution fee expenses payable	28	154,955	105,967
Amounts payable on purchase of investments		15,435	–
Other payables and accrued expenses		49,005	25,021
Other financial liabilities	30	3,991	4,527
Current tax liabilities		320,614	3,276
		1,218,726	196,093
Net current assets		3,887,509	2,910,215
Non-current liabilities			
Accrued bonus		19,292	320
Net assets		5,640,023	3,760,569
Equity			
Equity attributable to owners of the Company			
Issued equity	26	1,391,473	1,391,473
Other reserves	27	255,182	148,515
Retained earnings		3,993,368	2,157,728
		5,640,023	3,697,716
Non-controlling interests		–	62,853
Total equity		5,640,023	3,760,569

On behalf of the Board

SO Chun Ki Louis
Director

AU King Lun
Director

The notes on pages 76 to 130 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2017

		Attributable to owners of the Company					
	Note	Issued equity HK\$'000	Other reserves HK\$'000	Retained earnings HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
As at 1 January 2016		1,377,533	263,083	2,149,583	3,790,199	70,262	3,860,461
Profit for the year		–	–	137,547	137,547	(4,957)	132,590
Other comprehensive income/(loss)							
Fair value losses on available-for-sale financial assets	27	–	(2,303)	–	(2,303)	–	(2,303)
Foreign exchange translation	27	–	(35,042)	–	(35,042)	(2,452)	(37,494)
Total comprehensive income/(loss)		–	(37,345)	137,547	100,202	(7,409)	92,793
Transactions with owners in their capacity as owners							
Exercise of share options	26	13,940	–	–	13,940	–	13,940
Share-based compensation	26, 27	–	89,168	–	89,168	–	89,168
Transfer of share-based compensation reserve upon exercise, forfeiture or expiring of share options	27	–	(166,391)	166,391	–	–	–
Dividends to owners of the Company		–	–	(295,793)	(295,793)	–	(295,793)
Total transactions with owners in their own capacity as owners		13,940	(77,223)	(129,402)	(192,685)	–	(192,685)
As at 31 December 2016		1,391,473	148,515	2,157,728	3,697,716	62,853	3,760,569
As at 1 January 2017		1,391,473	148,515	2,157,728	3,697,716	62,853	3,760,569
Profit for the year		–	–	2,048,084	2,048,084	–	2,048,084
Other comprehensive income							
Fair value gains on available-for-sale financial assets	27	–	19,578	–	19,578	–	19,578
Foreign exchange translation	27	–	17,013	–	17,013	–	17,013
Reclassification of foreign exchange reserve due to disposal of foreign operations	27	–	31,065	–	31,065	–	31,065
Total comprehensive income		–	67,656	2,048,084	2,115,740	–	2,115,740
Transactions with owners in their capacity as owners							
Share-based compensation	26, 27	–	48,773	–	48,773	–	48,773
Disposals of subsidiaries	27	–	1,727	(1,727)	–	(62,853)	(62,853)
Transfer of share-based compensation reserve upon exercise, forfeiture or expiring of share options	27	–	(11,489)	11,489	–	–	–
Dividends to owners of the Company		–	–	(222,206)	(222,206)	–	(222,206)
Total transactions with owners in their own capacity as owners		–	39,011	(212,444)	(173,433)	(62,853)	(236,286)
As at 31 December 2017		1,391,473	255,182	3,993,368	5,640,023	–	5,640,023

The notes on pages 76 to 130 are an integral part of these consolidated financial statements.

Consolidated cash flow statement

For the year ended 31 December 2017

	Note	2017 HK\$'000	2016 HK\$'000
Cash flows from operating activities			
Net cash generated from operations	32	602,366	160,836
Interest received		26,204	18,421
Interest received from loan portfolio		–	36,047
Tax paid		(32,474)	(84,464)
Net cash generated from operating activities		596,096	130,840
Cash flows from investing activities			
Net cash outflows from disposal of subsidiaries			
– Continuing operations	33.2	(8,990)	–
– Discontinued operations	33.1	(35,893)	–
Disposal of an associate		–	50,742
Purchase of property, plant and equipment and intangible assets		(19,470)	(8,293)
Disposal of property, plant and equipment and intangible assets		1,222	–
Purchase of investments		(1,165,866)	(55,448)
Prepayments for purchase of investments		(35,733)	–
Disposal of investments		410,158	645,507
Dividends received from investments		8,027	16,681
Net cash (used in)/generated from investing activities		(846,545)	649,189
Cash flows from financing activities			
Dividends paid		(222,206)	(295,794)
Proceeds from shares issued upon exercise of share options		–	13,940
Repayment of from borrowings		–	(59,800)
Net cash used in financing activities		(222,206)	(341,654)
Net (decrease)/increase in cash and cash equivalents		(472,655)	438,375
Net foreign exchange gains/(losses) on cash and cash equivalents		48,228	(38,028)
Cash and cash equivalents at beginning of the year		2,629,131	2,228,784
Cash and cash equivalents at end of the year		2,204,704	2,629,131

The notes on pages 76 to 130 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

For the year ended 31 December 2017

1 General information

Value Partners Group Limited (the “Company”) was incorporated in the Cayman Islands 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 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 9th Floor, Nexus Building, 41 Connaught Road Central, Hong Kong, respectively.

The Company acts as an investment holding company. The activities of its principal subsidiaries are disclosed in Note 15 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 2018.

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

The consolidated financial statements of the Company have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (the “HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of investments.

The preparation of consolidated financial statements in conformity with HKFRS requires the use of 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 3 below.

New standards, amendments and interpretations issued but are not effective for the financial year beginning 1 January 2017 and have not been early adopted

- HKFRS 9 “Financial instruments” addresses the classification, measurement and recognition of financial assets and liabilities. It replaces the guidance in HKAS 39 that relates to the classification and measurement of financial instruments. HKFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity’s business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in HKAS 39. For financial liabilities, there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted.

Notes to the consolidated financial statements

For the year ended 31 December 2017

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

New standards, amendments and interpretations issued but are not effective for the financial year beginning 1 January 2017 and have not been early adopted (continued)

The Group has assessed HKFRS 9's impact on the consolidated financial statements. A majority of the Group's financial instruments include equity investments currently measured at fair value through profit or loss which will continue to be measured on the same basis under HKFRS 9. The Group also holds equity instruments currently classified as available-for-sale, and expects these equity instruments will be reclassified to financial assets at fair value through profit or loss under HKFRS 9. Related fair value gains or losses will have to be transferred from the available-for-sale financial assets revaluation reserve to retained earnings on 1 January 2018, and the Group does not expect it will have significant impact on the consolidated financial statements. As most of the Group's financial instruments are measured at financial assets at fair value through profit or loss, the Group does not expect the new expected credit losses model requirements will have significant impact on the consolidated financial statements.

- HKFRS 15 "Revenue from contracts with customers" deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces HKAS 18 "Revenue" and HKAS 11 "Construction contracts" and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The Group has assessed that there will not be significant impact on the consolidated financial statements.
- HKFRS 16 "Leases" will result in almost all leases being recognized on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change. Some of the commitments may be covered by the exception for short-term and low value leases and some commitments may relate to arrangements that will not qualify as leases under HKFRS 16. The standard is mandatory for annual periods beginning on or after 1 January 2019. The Group is yet to assess HKFRS 16's full impact.

There are no other HKFRS or HK(IFRIC) Interpretations that are not yet effective that would be expected to have a material impact on the Group.

Notes to the consolidated financial statements

For the year ended 31 December 2017

2 Summary of significant accounting policies (continued)

2.2 Subsidiaries

(a) Consolidation

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

De-facto control of an entity may arise from circumstances where the Group does not have more than 50% of the voting power but it has the practical ability to direct the relevant activities of the 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.

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognized in assets are also eliminated.

Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree, the equity interests issued by the Group and the fair value of any pre-existing equity interest in the subsidiary. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date. The Group recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of the acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date; any gains or losses arising from such remeasurement are recognized in the consolidated statement of comprehensive income.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred, the fair value of non-controlling interest and the acquisition-date fair value of any previous equity interest in the acquiree over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in the consolidated statement of comprehensive income.

Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Notes to the consolidated financial statements

For the year ended 31 December 2017

2 Summary of significant accounting policies (continued)

2.2 Subsidiaries (continued)

(a) Consolidation (continued)

Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

Structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only, and the relevant activities are directed by means of contractual arrangements. A structured entity often has restricted activities and a narrow and well defined objective, such as to provide investment opportunities for investors by passing on risks and rewards associated with the assets of the structured entity. Consequently, investment funds are considered as “structured entities”.

(b) Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes directly attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.3 Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognized in the consolidated statement of comprehensive income, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

Notes to the consolidated financial statements

For the year ended 31 December 2017

2 Summary of significant accounting policies (continued)

2.3 Associates (continued)

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount adjacent to share of profit/(loss) of an associate in the consolidated statement of comprehensive income.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognized in the Group's consolidated financial statements only to the extent of unrelated investor's interests in the associates. Unrealized losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group has invested in certain investment funds that it manages or advises. As an investment manager or investment advisor, the Group may put seed capital in investment funds that it manages or advises in order to facilitate their launch. 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 Group has applied the measurement exemption within HKAS 28 "Investments in Associates and Joint Ventures" for mutual funds, unit trusts and similar entities and such investments are classified as financial assets at fair value through profit or loss.

2.4 Joint arrangements

The Group has applied HKFRS 11 to all joint arrangements. Under HKFRS 11, investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions.

2.6 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 recognized in the consolidated statement of comprehensive income.

Translation differences on non-monetary financial assets such as equities held at fair value through profit or loss are recognized 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 other comprehensive income.

Notes to the consolidated financial statements

For the year ended 31 December 2017

2 Summary of significant accounting policies (continued)**2.6 Foreign currency translation (continued)****(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 statement of comprehensive income 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 rate on the dates of the transactions); and
- (iii) all resulting exchange differences are recognized in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognized in other comprehensive income.

(d) Disposal of foreign operation

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, loss of joint control over a joint arrangement that includes a foreign operation, or loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the company are reclassified to the consolidated statement of comprehensive income.

2.7 Property, plant and equipment

Property, plant and equipment, comprising leasehold improvements, furniture and fixtures, office equipment and vehicles, are stated at historical cost less accumulated 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 recognized 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 derecognized. All other repairs and maintenance are charged to the consolidated statement of comprehensive income 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	Over the lease terms
Furniture and fixtures	Five years
Office equipment	Three years
Vehicles	Three years

The assets' useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. 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 recognized in the consolidated statement of comprehensive income.

Notes to the consolidated financial statements

For the year ended 31 December 2017

2 Summary of significant accounting policies (continued)

2.8 Intangible assets

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries and associates and represents the excess of the consideration transferred over the Group's interest in the net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs") or groups of CGUs that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognized immediately as an expense and is not subsequently reversed.

(b) Computer software

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

Costs associated with developing or maintaining computer software programmes are recognized 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 recognized as intangible assets. Computer software development costs recognized as assets are amortized over their estimated useful lives (not exceeding five years).

(c) Others

Intangible assets acquired separately are measured on initial recognition at cost. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for intangible asset with a finite useful life are reviewed at least at each financial year end.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortized. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Notes to the consolidated financial statements

For the year ended 31 December 2017

2 Summary of significant accounting policies (continued)

2.9 Impairment

(a) Impairment of intangible assets and other non-financial assets

Assets that have an indefinite useful life such as goodwill are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. An impairment loss is recognized 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 of disposal 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 (CGUs). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(b) Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated statement of comprehensive income. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

The calculation of the present value of estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics which are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period which are indicative of changes in the probability of losses in the group and their magnitude. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

Notes to the consolidated financial statements

For the year ended 31 December 2017

2 Summary of significant accounting policies (continued)

2.9 Impairment (continued)

(b) Impairment of financial assets (continued)

When a loan is uncollectable, it is written off against the related allowance for loan impairment at the discretion of the management. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the allowance for loan impairment in the consolidated statement of comprehensive income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the consolidated statement of comprehensive income.

(c) Impairment of loans

The Group assessed the impairment losses on all loans on the balance sheet date based on two methods: individual assessment and collective assessment. The Group applied the individual assessment method to test the impairment of loans that are individually significant. If an objective evidence could indicate the loan had impairment loss, the loss amount shall be measured at the difference between the book value of the loan and the discounted value of estimated future cash flows and allowance for impairment loss on loans would be set aside and recognized in the loss of the period; the solvency of the borrower, reasonable value of the collateral, compensatory ability of the guarantor and other factors shall be fully considered in the impairment testing. Loans that are not individually significant and unimpaired loan tested by the individual assessment shall be included in the loan portfolio with similar characteristics. Their impairment losses shall be assessed collectively, and corresponding allowance for the impairment losses shall be recognized in the profit or loss.

2.10 Non-current assets held-for sale

Non-current assets are classified as held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. The non-current assets are stated at the lower of carrying amount and fair value less costs to sell.

The Group acts as an investment manager to a number of investment funds, and has provided seed capital for the set up of these funds. Certain interests in such investment funds are controlled by the Group and are classified 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.

2.11 Discontinued Operations

A discontinued operation is a component of the entity that has been disposed of and that represents a separate major line of business, is part of a single coordinated plan to dispose of such a line of business. The results of discontinued operations are presented separately in the consolidated statement of comprehensive income.

Notes to the consolidated financial statements

For the year ended 31 December 2017

2 Summary of significant accounting policies (continued)**2.12 Financial assets**

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables and available-for-sale. 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 measurement exemption within HKAS 28. A financial asset is classified as held for trading if acquired principally for the purpose of selling in the short term. Derivatives are also categorized as held for trading.

Held for trading financial assets are included in current assets. Financial assets at fair value through profit or loss being designated in accordance with the measurement exemption within HKAS 28 are included in non-current assets unless management intends to dispose of the financial assets within 12 months of the end of the reporting period.

(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 end of the reporting period which are classified as non-current assets. The Group's loans and receivables comprise mainly loan portfolio, fees receivable, other receivables, 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, held-to-maturity financial assets or loans and receivables. They are included in non-current assets unless management intends to dispose of the investments within 12 months of the end of the reporting period.

Regular way purchases and sales of financial assets are recognized on the trade-date – the date on which the Group commits to purchase or sell the financial assets. They are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the consolidated statement of comprehensive income. Financial assets are derecognized 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 subsequently carried at amortized 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 recognized in the consolidated statement of comprehensive income in the period in which they arise. Changes in the fair value of securities classified as available-for-sale financial assets are recognized in other comprehensive income.

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

Notes to the consolidated financial statements

For the year ended 31 December 2017

2 Summary of significant accounting policies (continued)

2.12 Financial assets (continued)

Interest on available-for-sale securities calculated using the effective interest method is recognized in the consolidated statement of comprehensive income as part of other income. Dividends on available-for-sale equity instruments are recognized in the consolidated statement of comprehensive income as part of other income when the Group's right to receive payments is established.

The fair value of quoted financial assets is based on last traded market 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 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 the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale financial assets, a significant or prolonged decline in the fair value of the security below its cost is evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in the consolidated statement of comprehensive income. Impairment losses recognized in the consolidated statement of comprehensive income on equity securities classified as available-for-sale financial assets are not reversed through the consolidated statement of comprehensive income.

Transfers between levels of the fair value measurement hierarchy are recognized as of the date of the event or change in circumstances that caused the transfer.

2.13 Derivative financial instruments

Derivative financial instruments are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured 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 recognized immediately in the consolidated statement of comprehensive income.

2.14 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

2.15 Fees receivable

Fees receivable are initially recognized at fair value of the fee income receivable and subsequently measured at amortized 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.

Notes to the consolidated financial statements

For the year ended 31 December 2017

2 Summary of significant accounting policies (continued)

2.16 Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits held at call with banks and brokers with original maturities of three months or less.

2.17 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. Costs directly attributable to the repurchase of issued ordinary shares are shown in equity as a deduction and the nominal value of the shares repurchased is transferred from retained earnings to the capital redemption reserve.

2.18 Current and deferred tax

The current tax charge is calculated on the basis of the tax laws enacted or substantively enacted by the reporting date in the jurisdictions where the Group and associates 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 reporting date and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to taxes levied by the same tax authority.

Deferred tax liabilities are provided on temporary differences arising on investments in subsidiaries and associates, 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.

Notes to the consolidated financial statements

For the year ended 31 December 2017

2 Summary of significant accounting policies (continued)

2.19 Revenue 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 recognizes 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 recognized as follows:

(a) Fees from investment management activities

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

Performance fees are recognized 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 recognized on a straight-line basis over the estimated holding periods of the investors in the investment funds. Any unrecognized amounts are treated as deferred income.

(c) Interest income

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

(d) Dividend income

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

2.20 Fee expenses

Fee expenses comprise:

(a) Distribution fee expenses

Distribution fee expenses represent rebates of management fee, performance fee and front-end fee income by the Group to the distributors for selling its products. Distribution fee expenses are recognized 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.

Notes to the consolidated financial statements

For the year ended 31 December 2017

2 Summary of significant accounting policies (continued)**2.21 Compensation and benefits****(a) Bonus**

The Group recognizes a liability and an expense for bonus on a basis that takes into consideration the profit attributable to owners of the Company and various other factors. The bonus is paid in cash to employees and directors. The Group recognizes a liability where contractually obliged or where there is a past practice that has created a constructive obligation.

(b) Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the share options is recognized as an expense. The total amount to be expensed is determined by reference to the fair value of the share options granted:

- including any market performance conditions;
- excluding the impact of any service and non-market performance vesting conditions; and
- including the impact of any non-vesting conditions.

Non-market vesting conditions are included in assumptions about the number of share options that are expected to vest. The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the entity revises its estimates of the number of share options that are expected to vest based on the non-market vesting conditions. It recognizes the impact of the revision to original estimates, if any, in the consolidated statement of comprehensive income, with a corresponding adjustment to equity.

When the share options are exercised, the Company issues new shares. 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.

The grant by the Company of options over its equity instruments to the employees of subsidiaries in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognized over the vesting period as an increase to investments in subsidiaries, with a corresponding credit to equity. In the same financial period, the Company makes a recharge to the subsidiaries in respect of share options granted to the subsidiaries' employees.

(c) Pension obligations

The Group participates in various pension schemes which are defined contribution plans generally funded through payments to trustee-administered funds. The Group pays contributions to the pension schemes on a mandatory basis. The Group has no legal or constructive obligations to pay further contributions if the pension schemes do not hold sufficient assets to pay all employees the benefits relating to employee services in the current and prior periods. The contributions are recognized as compensation and benefit expenses when they are due.

Notes to the consolidated financial statements

For the year ended 31 December 2017

2 Summary of significant accounting policies (continued)

2.21 Compensation and benefits (continued)

(d) 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 recognized 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 reporting date.

2.22 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

2.23 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 statement of comprehensive income on a straight-line basis over the period of the lease.

2.24 Dividend distribution

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

2.25 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 recognized 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 recognized 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 recognized 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 recognized 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 recognized.

Notes to the consolidated financial statements

For the year ended 31 December 2017

3 Critical accounting estimates and judgements

3.1 Valuation of investments classified as level 3 in the fair value hierarchy

The Group holds financial instruments that are not traded or quoted in active markets. The Group uses its judgment to select the appropriate methods and make assumptions based on market conditions existing at the end of each reporting period to estimate the fair value of such financial instruments and classifies them as level 3 in the fair value hierarchy. Although best estimate is used in estimating fair value, there are inherent limitations in any valuation technique. Estimated fair value may differ from the value that would have been used if a readily available market existed.

3.2 Investment funds managed by the Group

The Group acts as an investment manager to a number of investment funds and has provided seed capital for the set up of these funds. When determining whether the Group controls these funds, usually the level of aggregate economic interests of the Group in these funds and the level of investors' rights to remove the investment manager are considered.

The Group determines that it has no control over some investment funds since the level of aggregate economic interests of the Group in those funds is not so significant that it gives the Group control over the funds, taking into consideration the level of investors' rights to remove the investment manager.

The Group determines that it has control over some investment funds and has classified them as held-for-sale as it 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.

3.3 Accounting for investment in a joint venture

The Group invests in a joint venture, accounted for under the equity method, which includes an assessment of the fair value of the joint venture's underlying investments in real estate properties. The Group uses its judgment to select the appropriate methods and make assumptions based on market conditions existing at the end of each reporting period to estimate the fair value. Although best estimate is used in estimating fair value, there are inherent limitations in any valuation technique. Estimated fair value may differ from the value that would have been used if a readily available market existed.

4 Financial risk management

4.1 Financial risk factors

The Group's activities in relation to financial instruments 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 minimize potential adverse effects on the Group's financial performance.

(a) Foreign exchange risk

The Group is exposed to foreign exchange risk arising primarily from fees receivable denominated in United States dollar, loan portfolio denominated in Renminbi and bank deposits denominated in Australian dollar, Renminbi, United States dollar and Taiwan dollar. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations which are denominated in a currency that is not the entity's functional currency. Foreign currency exposures are covered by forward contracts and options whenever appropriate.

Under the Linked Exchange Rate System in Hong Kong, Hong Kong dollar (which is the functional currency of most of the Group's subsidiaries) is currently pegged to the United States dollar within a narrow range, the directors therefore consider that there are no significant foreign exchange risk with respect to the United States dollar.

Notes to the consolidated financial statements

For the year ended 31 December 2017

4 Financial risk management (continued)**4.1 Financial risk factors (continued)****(a) Foreign exchange risk (continued)**

The following table shows the approximate changes in the Group's post-tax profit for the year and equity in response to reasonable possible change in the foreign exchange rates to which the Group has significant exposure as at 31 December, with all other variables held constant.

	Change		Impact on post-tax profit		Impact on other components of equity	
	2017	2016	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000
Australian dollar	+/- 5%	+/- 5%	+/- 22,554	+/- 1,501	-	-
Renminbi	+/- 5%	+/- 5%	+/- 11,556	+/- 12,085	+/- 11,550	+/- 24,214
Taiwan dollar	+/- 5%	+/- 5%	+/- 751	+/- 947	-	+/- 2,574
Japanese Yen	+/- 5%	+/- 5%	+/- 9,548	+/- 5	-	-

Refer to Notes 20, 22, 23 and 28 below for additional disclosures on foreign exchange exposure.

(b) Interest rate risk

The Group's expenses and financing cash flows are substantially independent of changes in market interest rates as the Group has no interest bearing liabilities.

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

Cash flow interest rate risk

As at 31 December 2017, if interest rates had been 50 basis points (2016: 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, post-tax profit and equity for the year would have been HK\$722,000 higher or HK\$722,000 lower respectively (2016: HK\$605,000 higher or HK\$605,000 lower). The sensitivity analysis for the year ended 31 December 2017 and 2016 was primarily arising from the increase/decrease in interest income on cash and cash equivalents.

(c) Price risk

The Group is exposed to equity securities price risk in respect of investments held by the Group, which comprises investments in certain investment funds that it manages as seed capital and other investments in listed and unlisted equity securities and investment funds.

The table below summarizes the impact of increases or decreases in the markets in which the Group's investments operate. 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.

Notes to the consolidated financial statements

For the year ended 31 December 2017

4 Financial risk management (continued)**4.1 Financial risk factors (continued)****(c) Price risk (continued)**

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		Post-tax profit	
	2017	2016	2017	2016
			HK\$'000	HK\$'000
MSCI China Index	+/- 10%	+/- 10%	+/- 39,010	+/- 43,182

Post-tax profit for the year would increase or decrease as a result of gains or losses on investments classified as financial assets at fair value through profit or loss and investments held-for-sale.

Refer to Note 20 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.

(d) Credit risk

Credit risk arises from cash and cash equivalents, deposits with brokers, time deposits, loan portfolio, restricted bank balances, related interest receivable placed with banks and financial institutions and amounts receivable on sale of investments. 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 from investment management activities and fund distribution activities from the investment funds and managed accounts.

Credit risk is managed on a group basis and the credit quality of the counterparty is assessed, taking into account its financial position, past experience and other factors.

Cash

The table below summarizes the credit quality (as illustrated by credit rating) of cash and cash equivalents, deposits with brokers, time deposits, restricted bank balances and related interest receivable placed with banks.

	2017	2016
	HK\$'000	HK\$'000
A+	7,288	7,277
AA-	14,585	–
A	942,086	1,298,359
A-	147,343	380,668
BBB+	575,784	437,412
BBB	588,576	710,660
Unrated	552	22,796
	2,276,214	2,857,172

Notes to the consolidated financial statements

For the year ended 31 December 2017

4 Financial risk management (continued)**4.1 Financial risk factors (continued)****(d) Credit risk (continued)**

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

Loan portfolio

In 2017, the Group disposed of its small loan business. Refer to Note 33.1 for details.

As at 31 December 2016, maximum exposures to credit risk before taking into account any collateral held or other credit enhancements are HK\$189,415,000.

Credit quality of the loan portfolio can be assessed by reference to historical information about counterparty default rates. The credit quality is analysed as follows.

	2016 HK\$'000
Neither past due nor impaired	112,374
Past due but not impaired	
1 – 90 days	4,518
91 days – 1 year	368
Past due and impaired	72,155
Gross loan portfolio	189,415
Allowance for loan impairment	(65,634)
	123,781

The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and by monitoring exposures in relation to such limits. The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties.

As at 31 December 2016, the principal collateral types consist of land and property of HK\$116,850,000. The fair value of collaterals is determined as the lower of the market value of collateral and outstanding loan.

Fees receivable

As at 31 December 2017, fees receivable including management fee and performance fee from the five major investment funds and managed accounts amounted to HK\$2,345,313,000 (2016: HK\$81,510,000), which accounted for 90% (2016: 72%) of the total outstanding balance. Refer to Note 22 below for additional disclosures on credit risk.

Notes to the consolidated financial statements

For the year ended 31 December 2017

4 Financial risk management (continued)

4.1 Financial risk factors (continued)

(e) Liquidity risk

The Group manages liquidity risk by maintaining a sufficient amount of liquid assets to ensure daily operational requirements are fulfilled. As at 31 December 2017, the Group held liquid assets of HK\$2,204,704,000 (2016: HK\$2,629,131,000), being cash and cash equivalents, that are expected to readily generate cash inflows for managing liquidity risk.

The table below analyses the Group's financial assets and liabilities by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cashflow.

	2017				2016			
	No stated maturity HK\$'000	Less than 1 year HK\$'000	Between 1 and 5 years HK\$'000	Over 5 years HK\$'000	No stated maturity HK\$'000	Less than 1 year HK\$'000	Between 1 and 5 years HK\$'000	Over 5 years HK\$'000
Assets								
Investments								
Non-derivative financial instruments	1,172,068	-	413,208	-	742,330	-	-	-
Derivative financial instruments	-	53,305	-	-	-	-	33,655	-
Investments held-for-sale	-	-	-	-	-	14,875	-	-
Fees receivable	-	2,611,076	-	-	-	112,429	-	-
Loan portfolio, gross	-	-	-	-	-	94,827	114,827	-
Amounts receivable on sale of investments	-	41,974	-	-	-	-	-	-
Prepayment and other receivables	-	63,184	-	-	-	14,396	-	-
Deposits with brokers	-	36,331	-	-	-	175,310	-	-
Time deposits	-	-	-	-	-	43,781	-	-
Cash and cash equivalents	220,920	1,983,784	-	-	189,930	2,439,201	-	-
	1,392,988	4,789,654	413,208	-	932,260	2,894,819	148,482	-
Liabilities								
Investments								
Non-derivative financial instruments	(11,176)	-	-	-	(3,644)	-	-	-
Derivative financial instruments	-	(624)	-	-	-	(438)	(39)	-
Accrued bonus	-	(662,926)	(19,292)	-	-	(53,181)	(320)	-
Distribution fee expenses payable	-	(154,955)	-	-	-	(105,967)	-	-
Amounts payable on purchase of investments	-	(15,435)	-	-	-	-	-	-
Other payables and accrued expenses	(2,167)	(46,838)	-	-	(2,127)	(22,894)	-	-
Other financial liabilities	(3,991)	-	-	-	(4,527)	-	-	-
	(17,334)	(880,778)	(19,292)	-	(10,298)	(182,480)	(359)	-
Cumulative gap	1,375,654	3,908,876	393,916	-	921,962	2,712,339	148,123	-

4.2 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.

As at 31 December 2017, Sensible Asset Management Hong Kong Limited, Sensible Asset Management Limited, Value Partners Hong Kong Limited, Value Partners Limited, Value Partners Private Equity Limited and Value Partners Technology Systems Limited, wholly-owned subsidiaries of the Group, are licensed to carry out regulated activities under the Hong Kong Securities and Futures Ordinance ("SFO"). These regulated entities are subject to and complied with the paid-up capital and liquid capital requirements under the SFO for the year ended 31 December 2017 and 2016.

Notes to the consolidated financial statements

For the year ended 31 December 2017

4 Financial risk management (continued)**4.2 Capital risk management (continued)**

Value Partners Asset Management Singapore Pte. Ltd, a wholly owned subsidiary of the Group, holds a Capital Market Services License for Fund Management issued by the Monetary Authority of Singapore under the Securities and Futures Act ("SFA"). The company is subject to and complied with the paid-up capital and liquid capital requirements under SFA during the year ended 31 December 2017 and 2016.

Value Partners Investment Management (Shanghai) Limited, a wholly owned subsidiary of the Group, has been registered with the Asset Management Association of China ("AMAC") as a private fund management firm on 9 November 2017. The company is subject to and complied with the paid-up capital requirements under the AMAC during the year ended 31 December 2017.

	Types of regulated activities ^(b)
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 ^(a)	Types 1, 2, 4, 5 and 9
Value Partners Limited ^(a)	Types 1, 2, 4, 5 and 9
Value Partners Private Equity Limited ^(a)	Types 4 and 9
Value Partners Technology Systems Limited ^{(a), (c)}	Types 1, 4 and 9
Value Partners Asset Management Singapore Pte. Ltd	Capital Market Services for Fund Management
Value Partners Investment Management (Shanghai) Limited	Private Fund Management

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

(b) The types of SFO regulated activities are as follows:

- Type 1: Dealing in securities
- Type 2: Dealing in futures
- Type 4: Advising on securities
- Type 5: Advising on futures contracts
- Type 9: Asset management

(c) The company became a regulated entity on 5 April 2017.

4.3 Fair value estimation

The following table presents the Group's financial instruments that are measured at fair value at the end of the reporting period by level of the fair value measurement hierarchy.

	Level 1		Level 2		Level 3		Total	
	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000
Investments (Note 20)								
Listed securities	329,103	211,036	-	-	-	-	329,103	211,036
Unlisted securities								
Investment funds – Cayman Islands	-	-	401,300	288,336	5,055	4,341	406,355	292,677
Loan note – Australia	-	-	-	-	413,208	-	413,208	-
Others	-	-	425,434	234,535	-	-	425,434	234,535
Derivative financial instruments	(475)	-	(149)	(39)	53,305	33,655	52,681	33,616
Investments held-for-sale (Note 21)	-	-	-	14,875	-	-	-	14,875

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For the year ended 31 December 2017

4 Financial risk management (continued)

4.3 Fair value estimation (continued)

The fair value of financial instruments traded in active markets is based on quoted market prices for identical instruments at the reporting date. A market is regarded as active if quoted prices are readily and regularly available, and those prices represent actual and regularly occurring market transactions on an arm's length basis. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, either directly (as prices) or indirectly (derived from prices), the instrument is included in level 2. These instruments include the Group's investments in investment funds.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted bid prices (or net asset value) provided by fund administrators for unlisted investment funds. These investment funds invest substantially in listed equities.
- 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, for the remaining financial instruments.

The following table presents the movement of level 3 instruments.

	Year ended 31 December 2017				Year ended 31 December 2016		
	Unlisted securities – investment funds	Unlisted securities – loan note	Derivative financial instruments	Total	Unlisted securities – investment funds	Derivative financial instruments	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 1 January	4,341	–	33,655	37,996	3,015	37,257	40,272
Addition	621	405,432	781	406,834	1,750	781	2,531
Return of capital from investment	–	–	–	–	(71)	–	(71)
Gains/(losses) recognized in profit or loss	–	7,776	18,869	26,645	(286)	(4,383)	(4,669)
Gains/(losses) recognized in other comprehensive income	93	–	–	93	(67)	–	(67)
As at 31 December	5,055	413,208	53,305	471,568	4,341	33,655	37,996
Total gains/(losses) for the year included in the consolidated statement of comprehensive income for level 3 instruments for the year	93	7,776	18,869	26,738	(353)	(4,383)	(4,736)
Change in unrealized gains or losses for level 3 instruments held at year end and included in profit or loss	–	7,776	18,869	26,645	1,499	(4,383)	(2,884)

Notes to the consolidated financial statements

For the year ended 31 December 2017

4 Financial risk management (continued)

4.3 Fair value estimation (continued)

The level 3 instruments include an investment fund, a derivative financial instrument and a loan note. As at 31 December 2017 and 2016, the investment fund was stated with reference to the net asset value provided by the respective administrators of the investment fund. If the net asset value of the investment fund is not available or the Group considers that such net asset value is not reflective of fair value, the Group may exercise its judgement and discretion to determine the fair value of the investment fund. As at 31 December 2017 and 2016, the investment in a derivative financial instrument, which relates to an over-the-counter equity swap, was valued with reference to the broker quote obtained from the market maker. As at 31 December 2017, the investment in a loan note, which is a private investment acquired on 15 December 2017, was valued with reference to the subscription price. The Group uses its judgment to select the appropriate methods and make assumptions based on market conditions existing at the end of each reporting period.

For these level 3 investments, no significant quantitative unobservable inputs are used to determine their fair value. No quantitative analysis would be presented.

There were no transfers between levels of the fair value measurement hierarchy for the year ended 31 December 2017 (2016: Nil).

The maturities of fees receivable, amounts receivable on sale of investments, other receivables, deposits with brokers, time deposits, cash and cash equivalents and financial liabilities are within one year, and the carrying value approximates their fair value.

5 Segment information

The Board of Directors reviews the Group's internal financial reporting and other information and also obtains other relevant external information in order to assess performance and allocate resources and operating segments are identified with reference to these.

The Group determines its operating segments based on the information reviewed by the Board of Directors, which is used to make strategic decisions. The Board of Directors evaluates the business from a product perspective.

The Group has two reportable segments – asset management business and small loan business. The two segments are managed separately and offer different products and services. The asset management business is the Group's core business. It derives revenues from investment management services to investment funds and managed accounts.

The Group has a small loan business in Chengdu. Major income of this small loan business includes interest income and administrative fee income. In 2017, the Group disposed of its small loan business, and disclosed its results as a discontinued operation. Refer to Note 33.1 for details.

The Board of Directors assesses the performance of the operating segments based on a measure of profit before tax.

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For the year ended 31 December 2017

5 Segment information (continued)

Profit or loss

The revenue and profit before tax reported to the Board of Directors is measured in a manner consistent with that in the consolidated financial statements. An analysis of the Group's revenue and profit before tax for the year by segments is as follows:

	Year ended 31 December 2017			Year ended 31 December 2016		
	Asset management business HK\$'000	Small loan business (discontinued operations) HK\$'000	Total HK\$'000	Asset management business HK\$'000	Small loan business HK\$'000	Total HK\$'000
Income from external customers	4,105,950	1,384	4,107,334	1,398,604	34,516	1,433,120
Distribution fee expenses	(846,092)	–	(846,092)	(770,282)	–	(770,282)
Net fee income	3,259,858	1,384	3,261,242	628,322	34,516	662,838
Other income	39,271	1,530	40,801	41,143	5,008	46,151
Total net income	3,299,129	2,914	3,302,043	669,465	39,524	708,989
Depreciation and amortization	(16,252)	(149)	(16,401)	(13,225)	(664)	(13,889)
Operating expenses	(1,075,528)	(1,307)	(1,076,835)	(458,440)	(57,972)	(516,412)
Operating profit/(loss) (before other gains/losses)	2,207,349	1,458	2,208,807	197,800	(19,112)	178,688
Other gains/(losses) – net	227,710	(40,128)	187,582	(20,550)	2,079	(18,471)
Operating profit/(loss) (after other gains/losses) and profit/(loss) before tax	2,435,059	(38,670)	2,396,389	177,250	(17,033)	160,217
Tax (expense)/credit	(348,495)	190	(348,305)	(31,230)	3,603	(27,627)
Profit/(loss) for the year	2,086,564	(38,480)	2,048,084	146,020	(13,430)	132,590

Income from external customers consists of fee income from asset management business of HK\$4,105,950,000 (2016: HK\$1,398,604,000), interest income from small loan business of HK\$1,314,000 (2016: HK\$33,893,000) and fee income from small loan business of HK\$70,000 (2016: HK\$623,000).

Assets

	As at 31 December 2017			As at 31 December 2016		
	Asset management business HK\$'000	Small loan business (discontinued operations) HK\$'000	Total HK\$'000	Asset management business HK\$'000	Small loan business HK\$'000	Total HK\$'000
Property, plant and equipment	7,710	–	7,710	10,110	493	10,603
Intangible assets	17,529	–	17,529	13,832	215	14,047
Investment in a joint venture	190,867	–	190,867	–	–	–
Deferred tax assets/(liabilities)	122	–	122	(1,027)	16,411	15,384
Investments	1,638,581	–	1,638,581	775,985	–	775,985
Investments held-for-sale	–	–	–	14,875	–	14,875
Fees receivable	2,611,076	–	2,611,076	112,429	–	112,429
Loan portfolio, net	–	–	–	–	123,781	123,781
Amounts receivable on sale of investments	41,974	–	41,974	–	–	–
Prepayments and other receivables	69,956	14,720	84,676	28,825	4,215	33,040
Deposits with brokers	36,331	–	36,331	175,310	–	175,310
Time deposits	–	–	–	41,406	2,375	43,781
Cash and cash equivalents	2,204,704	–	2,204,704	2,236,624	392,507	2,629,131
Other assets	12,789	31,682	44,471	8,616	–	8,616
	6,831,639	46,402	6,878,041	3,416,985	539,997	3,956,982

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For the year ended 31 December 2017

5 Segment information (continued)

The amounts provided to the Board of Directors with respect to total assets are measured in a manner consistent with that of the consolidated financial statements. These assets are allocated based on the operations of the segment.

The Company is domiciled in the Cayman Islands with the Group's major operations in the Greater China. The revenue from external customers mainly arises from the Greater China region. The Board of Directors considers that substantially all the assets of the Group are located in Hong Kong.

Revenues of approximately HK\$92,918,000 (2016: HK\$78,647,000) are derived from a single external customer of the asset management business segment.

6 Revenue

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

	2017 HK\$'000	2016 HK\$'000
Management fees	1,196,044	1,049,068
Performance fees	2,570,921	10,802
Front-end fees	338,985	338,734
Total fee income	4,105,950	1,398,604

7 Other income

	2017 HK\$'000	2016 HK\$'000
Interest income on cash and cash equivalents, time deposits and restricted bank balances	27,125	15,036
Dividend income on financial assets at fair value through profit or loss	4,509	16,114
Dividend income on available-for-sale financial assets	7,223	5,028
Others	414	4,965
Total other income	39,271	41,143

8 Compensation and benefit expenses

	2017 HK\$'000	2016 HK\$'000
Salaries, wages and other benefits	217,967	201,827
Management bonus	682,089	52,525
Share-based compensation (Notes 26 and 27)	48,773	89,168
Pension costs	5,142	4,850
Total compensation and benefit expenses	953,971	348,370

Notes to the consolidated financial statements

For the year ended 31 December 2017

8 Compensation and benefit expenses (continued)**8.1 Pension costs – mandatory provident fund scheme**

There were no forfeited contributions utilized during the year ended 31 December 2017 (2016: Nil) and as at 31 December 2017 (2016: Nil) to reduce future contributions.

As at 31 December 2017, no contributions were payable to the mandatory provident fund scheme (2016: Nil).

8.2 Five highest-paid individuals

The five highest-paid individuals in the Group during the year ended 31 December 2017 included three (2016: three) directors whose emoluments are reflected in the analysis shown in Note 38. Details of the remuneration of the remaining highest-paid individuals are as follows:

	2017 HK\$'000	2016 HK\$'000
Salaries, wages and other benefits	8,125	5,605
Management bonus	93,245	6,732
Share-based compensation	9,032	16,809
Pension costs – mandatory provident fund scheme	36	36
	110,438	29,182

The remaining two (2016: two) individuals emoluments were within the following bands:

	Number of individuals	
	2017	2016
HK\$10,000,001 to HK\$15,000,000	0	1
HK\$15,000,001 to HK\$20,000,000	0	1
HK\$35,000,001 to HK\$40,000,000	1	0
HK\$70,000,001 to HK\$75,000,000	1	0

8.3 Senior management remuneration by band

Details of the remuneration of the senior management were within the following bands:

	Number of individuals	
	2017	2016
Below HK\$5,000,000	0	4
HK\$5,000,001 to HK\$10,000,000	4	1
HK\$10,000,001 to HK\$15,000,000	1	0
HK\$15,000,001 to HK\$20,000,000	0	1
HK\$35,000,001 to HK\$40,000,000	1	0
HK\$70,000,001 to HK\$75,000,000	1	0

Notes to the consolidated financial statements

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9 Other expenses

	2017 HK\$'000	2016 HK\$'000
Legal and professional fees	21,021	10,893
Depreciation, amortization and impairment charges	16,252	13,225
Research expenses	13,068	12,747
Marketing expenses	10,002	13,282
Travelling expenses	7,421	6,734
Office expenses	6,465	6,741
Recruitment expenses	5,799	1,851
Insurance expenses	4,480	4,804
Auditor's remuneration	4,197	4,738
Entertainment expenses	2,987	2,634
Registration and licensing fees	1,329	1,136
Donations	22	353
Others	16,967	16,644
	110,010	95,782

10 Other gains/(losses) – net

	2017 HK\$'000	2016 HK\$'000
Net gains/(losses) on investments		
Gains on financial assets at fair value through profit or loss	233,661	115,914
Losses on financial assets at fair value through profit or loss	(33,865)	(116,996)
Gains on disposal of available-for-sale financial assets	234	–
Losses on disposal of available-for-sale financial assets	(1,222)	–
Net losses on investments held-for-sale		
Losses on investments held-for-sale (Note 21)	–	(2,024)
Gains on disposal of a subsidiary (Note 33.2)	11,173	–
Others		
Net foreign exchange gains/(losses)	19,825	(17,444)
Foreign exchange losses reclassified to profit or loss on disposal of a foreign operation (Note 33.2)	(2,117)	–
Gains on disposal of property, plant and equipment	21	–
Total other gains/(losses) – net	227,710	(20,550)

11 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 consolidated financial statements.

Notes to the consolidated financial statements

For the year ended 31 December 2017

11 Tax expense (continued)

Hong Kong profits tax has been provided on the estimated assessable profit for the year ended 31 December 2017 at the rate of 16.5% (2016: 16.5%). Tax outside Hong Kong is calculated at the rates applicable in the relevant jurisdictions.

	2017 HK\$'000	2016 HK\$'000
Current tax		
Hong Kong profits tax	332,951	32,777
Overseas tax	18,790	4,174
Adjustments in respect of prior years	(2,098)	(8,753)
Total current tax	349,643	28,198
Deferred tax		
Origination and reversal of temporary differences (Note 29)	(1,148)	3,032
Total tax expense	348,495	31,230

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:

	2017 HK\$'000	2016 HK\$'000
Profit before tax	2,435,059	177,250
Tax calculated at domestic tax rates applicable to profits in the respective countries	406,149	28,020
Tax effects of:		
Non-taxable income and gains on investments	(108,802)	(46,367)
Non-deductible expenses and losses on investments	53,246	58,330
Adjustments in respect of prior years	(2,098)	(8,753)
Tax expense	348,495	31,230

The weighted average applicable tax rate was 16.7% (2016: 15.8%). The increase is caused by a change in the profitability of the Group's subsidiaries in respective regions.

12 Other comprehensive income/(loss)

	2017 HK\$'000	2016 HK\$'000
Items that have been reclassified or may be subsequently reclassified to profit or loss:		
Fair value gains/(losses) on available-for-sale financial assets (Note 20.1 and 27)	19,578	(2,303)
Foreign exchange translation	17,013	(37,494)
Foreign exchange losses reclassified to profit or loss on disposal of foreign operations	31,065	—
Total other comprehensive income/(loss)	67,656	(39,797)

Notes to the consolidated financial statements

For the year ended 31 December 2017

13 Earnings per share

13.1 Basic earnings per share

Basic earnings per share is calculated by dividing the profit for the year attributable to owners of the Company by the weighted average number of ordinary shares in issue.

	2017	2016
Profit for the year attributable to owners of the Company (HK\$'000)	2,048,084	137,547
Weighted average number of ordinary shares in issue (thousands)	1,851,715	1,849,722
Basic earnings per share (HK cents per share)	110.6	7.4

13.2 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 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.

	2017	2016
Profit for the year attributable to owners of the Company (HK\$'000)	2,048,084	137,547
Weighted average number of ordinary shares in issue (thousands)	1,851,715	1,849,722
Adjustments for share options (thousands)	1,808	2,492
Weighted average number of ordinary shares for diluted earnings per share (thousands)	1,853,523	1,852,214
Diluted earnings per share (HK cents per share)	110.5	7.4

14 Dividends

	2017 HK\$'000	2016 HK\$'000
Declared special dividend of HK86.0 cents (2016: HK7.2 cents) per ordinary share	1,595,915	133,324
Proposed final dividend of HK18.0 cents (2016: HK4.8 cents) per ordinary share	334,028	88,882
Total dividends	1,929,943	222,206

On 19 January 2018, the directors declared a special dividend of HK86.0 cents per share to the shareholders whose names appear on the register of members of the Company on 7 February 2018, and 1,855,715,000 shares were in issue on such date. Total special dividend of HK\$1,595,915,000 was paid to the shareholders on 28 February 2018. For the year ended 31 December 2017, the directors recommended a final dividend of HK18.0 cents per share. The estimated total final dividend is HK\$334,028,000. The final dividend is to be approved by shareholders at the Annual General Meeting of the Company on 27 April 2018. Both dividends have not been recognized as a liability at the balance sheet date.

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15 Investments in subsidiaries

15.1 Corporate structure

As at 31 December 2017, the Company had interests in the following principal subsidiaries:

Name	Place of incorporation	Principal activities and place of operation	Issued share capital	Effective interest held	
				Directly	Indirectly
Chief Union Investments Limited	Hong Kong	Money lending in Hong Kong	1 ordinary share	100%	–
Hong Kong Asset Management Group Limited	Hong Kong	Dormant	1 ordinary share	100%	–
Hong Kong Fund Management Group Limited	Hong Kong	Dormant	1 ordinary share	100%	–
Rough Seas Capital Holdings Limited	Hong Kong	Dormant	1,000,000 ordinary shares	100%	–
Sensible Asset Management Hong Kong Limited	Hong Kong	Investment management in Hong Kong	55,000,000 ordinary shares and 1,000,000 voting participating preference shares	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 Executive Solutions Co. Limited	Hong Kong	Dormant	1 ordinary share	100%	–
Value Funds Limited	Hong Kong	Investment holding	1 ordinary share	100%	–
Value Partners (Cayman GP) II Ltd	Cayman Islands	Managing member of two investment funds managed by Value Partners Limited	1 ordinary share of US\$1	100%	–
Value Partners (UK) Limited	United Kingdom	Investment Management in United Kingdom	GBP50,000	100%	–
Value Partners Asset Management Singapore Pte. Ltd.	Singapore	Investment management in Singapore	1,000,000 ordinary shares of S\$1 each	100%	–
Value Partners Corporate Consulting Limited	Hong Kong	Dormant	5,000,000 ordinary shares	100%	–
Value Partners Hong Kong Limited	Hong Kong	Investment management, investment holding and securities dealing in Hong Kong	385,000,000 ordinary shares	100%	–
Value Partners Index Services Limited	Hong Kong	Indexing services in Hong Kong	1 ordinary share	100%	–
Value Partners Investment Advisory Limited	Hong Kong	Consulting services in Hong Kong	25,000,000 ordinary shares	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	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%	–
Value Partners Technology Solutions Limited	Hong Kong	Providing information technology services	1 ordinary share	100%	–
Value Partners Technology Systems Limited	Hong Kong	Providing robo-advisory services	20,000,000 ordinary shares	100%	–
Valuegate Holdings Limited	British Virgin Islands	Trademark holding in Hong Kong	2 ordinary shares of US\$1 each	100%	–
惠理海外投資基金管理(上海)有限公司	PRC	Investment advisory in China	Registered capital of RMB20,000,000	–	100%
惠理投資管理(上海)有限公司	PRC	Investment management and advisory in China	Registered capital of RMB50,000,000	–	100%
惠理股權投資管理(深圳)有限公司	PRC	Equity investment in China	Registered capital of RMB13,000,000	–	100%

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15 Investments in subsidiaries (continued)**15.2 Interests in structured entities**

As at 31 December 2017 and 2016, the Group is deemed to hold controlling interest in the following investment funds. All assets and liabilities of these funds are consolidated within the Group's balance sheet.

	Place of incorporation	Effective interest held			
		2017		2016	
		Directly	Indirectly	Directly	Indirectly
Value Partners Asia Pacific Real Estate Limited Partnership	Cayman Islands	–	100%	–	–
Value Partners Big Data Fund	Cayman Islands	–	96%	–	95%

In 2017, the Group has set up Value Partners Asia Pacific Real Estate Limited Partnership (the “Real Estate Partnership”) to engage in real estate private equity business. The Group has committed US\$100 million capital to the Real Estate Partnership, and the undrawn commitment amounted to US\$21 million as at 31 December 2017. The Real Estate Partnership will focus on the acquisition of stabilized income assets in the Asia Pacific. As at 31 December 2017, the Real Estate Partnership held two investments include:

- As at 31 December 2017, the Real Estate Partnership has 50% equity interest in Value Investing Group Company Limited (the “Value Investing”), a company incorporated in Hong Kong. In August 2017, Value Investing acquired the trust beneficial interests in two Japanese properties. Value Investing is presented as “investment in a joint venture” on the consolidated balance sheet. Refer to Note 16 for details.
- In December 2017, the Real Estate Partnership entered into a loan note deed, pursuant to which the Real Estate Partnership agreed to subscribe for loan note issued by the AM 9 Hunter Street Finance Unit Trust (the “Finance Trust”). The proceeds from the loan note were used solely by the Finance Trust to invest in the units of another trust which holds a property in Australia. The loan note is presented as “investments” on the consolidated balance sheet.

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16 Investment in a joint venture

On 24 November 2017, the Group entered into a sale and purchase agreement with a third party to sell 50% of its interest in one of its wholly owned subsidiaries, Value Investing, to a third party at the consideration of HK\$1, reducing its beneficiary interest and voting right in Value Investing from 100% to 50%. The purchaser provided an interest free shareholder's loan to Value Investing to repay the corresponding amount of shareholder's loan owing by Value Investing to the Group. No gain or loss was recognized from this transaction. As a result of disposal, the interest in Value Investing becomes a joint venture.

	2017 HK\$'000	2016 HK\$'000
Beginning of the year	–	–
Deemed acquisition of a joint venture	190,867	–
End of the year	190,867	–

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

Name	Place of incorporation	Principal activities	Interest held	
			2017	2016
Value Investing Group Company Limited	Hong Kong	Investment holding	50%	–

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

	2017 HK\$'000	2016 HK\$'000
Asset – current assets	190,990	–
Liabilities – current liabilities	(123)	–
Net assets	190,867	–
Other gains – net	309	–
Expenses	(277)	–
Tax expense	(32)	–
Profit after tax	–	–

There are no commitments and contingent liabilities relating to the Group's interest in the joint venture, and no commitments and contingent liabilities of the joint venture itself.

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17 Property, plant and equipment

	Leasehold improvements HK\$'000	Furniture and fixtures HK\$'000	Office equipment HK\$'000	Vehicles HK\$'000	Total HK\$'000
As at 1 January 2016					
Cost	25,212	5,031	17,768	2,355	50,366
Accumulated depreciation	(17,693)	(4,050)	(11,206)	(956)	(33,905)
Net book amount	7,519	981	6,562	1,399	16,461
Year ended 31 December 2016					
Opening net book amount	7,519	981	6,562	1,399	16,461
Additions	832	90	2,134	–	3,056
Disposals	(1,186)	–	(458)	–	(1,644)
Exchange differences	(54)	(5)	–	(28)	(87)
Depreciation	(4,410)	(291)	(3,353)	(773)	(8,827)
Write back of depreciation on disposals	1,186	–	458	–	1,644
Closing net book amount	3,887	775	5,343	598	10,603
As at 31 December 2016					
Cost	24,858	5,121	19,444	2,355	51,778
Accumulated depreciation	(20,971)	(4,346)	(14,101)	(1,757)	(41,175)
Net book amount	3,887	775	5,343	598	10,603
Year ended 31 December 2017					
Opening net book amount	3,887	775	5,343	598	10,603
Additions	6,340	428	1,967	–	8,735
Disposals	(16,543)	(3,526)	(6,994)	–	(27,063)
Disposal of subsidiaries	(1,436)	(99)	(1,866)	–	(3,401)
Exchange differences	38	9	88	14	149
Depreciation (Note 9)	(6,505)	(292)	(3,244)	(488)	(10,529)
Write back of depreciation on disposals	16,543	3,526	6,994	–	27,063
Write back of depreciation on disposal of subsidiaries	1,147	47	959	–	2,153
Closing net book amount	3,471	868	3,247	124	7,710
As at 31 December 2017					
Cost	13,219	1,924	12,551	2,355	30,049
Accumulated depreciation	(9,748)	(1,056)	(9,304)	(2,231)	(22,339)
Net book amount	3,471	868	3,247	124	7,710

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For the year ended 31 December 2017

18 Intangible assets

	Goodwill HK\$'000	Computer software HK\$'000	Others HK\$'000	Total HK\$'000
As at 1 January 2016				
Cost	54,435	25,432	–	79,867
Accumulated amortization	–	(11,554)	–	(11,554)
Accumulated impairment	(54,435)	–	–	(54,435)
Net book amount	–	13,878	–	13,878
Year ended 31 December 2016				
Opening net book amount	–	13,878	–	13,878
Additions	–	5,237	–	5,237
Exchange differences	–	(6)	–	(6)
Amortization	–	(5,062)	–	(5,062)
Closing net book amount	–	14,047	–	14,047
As at 31 December 2016				
Cost	54,435	30,669	–	85,104
Accumulated amortization	–	(16,622)	–	(16,622)
Accumulated impairment	(54,435)	–	–	(54,435)
Net book amount	–	14,047	–	14,047
Year ended 31 December 2017				
Opening net book amount	–	14,047	–	14,047
Additions	–	3,235	7,500	10,735
Disposals	–	(5,567)	–	(5,567)
Disposal of subsidiaries	–	(2,607)	–	(2,607)
Exchange differences	–	136	–	136
Amortization (Note 9)	–	(4,479)	–	(4,479)
Impairment (Note 9)	–	(1,244)	–	(1,244)
Write back of amortization on disposals	–	4,367	–	4,367
Write back of amortization on disposal of subsidiaries	–	2,141	–	2,141
Closing net book amount	–	10,029	7,500	17,529
As at 31 December 2017				
Cost	54,435	25,730	7,500	87,665
Accumulated amortization	–	(14,457)	–	(14,457)
Accumulated impairment	(54,435)	(1,244)	–	(55,679)
Net book amount	–	10,029	7,500	17,529

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19 Investments in associates**19.1 Investments in associates measured at fair value**

Where the Group has an interest in the investment funds that give the Group significant influence, but not control, the Group records such investments at fair value. Details of such investment funds are summarized as follow.

	Place of incorporation	Interest held 2017	2016
Value Partners Fixed Income SPC	Cayman Islands	25%	–
– Value Partners Credit Opportunities Fund SP ^(a)			
Value Partners Ireland Fund Plc	Ireland	22%	21%
– Value Partners Health Care Fund			
		2017 HK\$'000	2016 HK\$'000
Value Partners Fixed Income SPC			
– Value Partners Credit Opportunities Fund SP ^(a)			
Net asset value		796,727	–
Profit for the year and total comprehensive income		13,941	–
Value Partners Ireland Fund Plc – Value Partners Health Care Fund			
Net asset value		209,207	177,993
Profit for the year and total comprehensive income		38,143	1,324

(a) The fund was launched on 20 November 2017.

The fair value of the Group's interest in such investment funds are summarized in Note 36.3.

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For the year ended 31 December 2017

20 Investments

Investments include the following:

	Financial assets/ (liabilities) at fair value through profit or loss		Available-for-sale financial assets		Total	
	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000
Listed securities (by place of listing)						
Equity securities – Long – China	2,745	–	–	–	2,745	–
Equity securities – Long – Hong Kong	118,552	30,583	–	–	118,552	30,583
Equity securities – Short – Hong Kong	(11,176)	(3,644)	–	–	(11,176)	(3,644)
Equity securities – Long – South Korea	3,162	–	–	–	3,162	–
Equity securities – Long – Singapore	2,299	4,514	–	–	2,299	4,514
Equity securities – Long – Taiwan	4,133	4,428	–	–	4,133	4,428
Equity securities – Long – United States	8,263	2,230	–	–	8,263	2,230
Investment funds – Hong Kong	201,125	173,363	–	–	201,125	173,363
Market value of listed securities	329,103	211,474	–	–	329,103	211,474
Unlisted securities (by place of incorporation/establishment)						
Equity securities – Singapore	–	–	8,014	5,594	8,014	5,594
Investment funds – Australia	21,023	17,573	–	–	21,023	17,573
Investment funds – Cayman Islands	401,300	288,336	5,055	4,341	406,355	292,677
Investment funds – China	51,550	13,869	–	1,183	51,550	15,052
Investment funds – Hong Kong	44,995	–	–	–	44,995	–
Investment funds – Ireland	129,060	38,063	–	–	129,060	38,063
Investment funds – Luxembourg	–	–	51,889	71,867	51,889	71,867
Investment funds – United States	77,675	60,675	41,228	25,711	118,903	86,386
Loan note – Australia	413,208	–	–	–	413,208	–
Fair value of unlisted securities	1,138,811	418,516	106,186	108,696	1,244,997	527,212
Derivative financial instruments						
Equity swap – China	53,305	33,655	–	–	53,305	33,655
Equity swap – Taiwan	(50)	(39)	–	–	(50)	(39)
Equity swap – South Korea	(99)	–	–	–	(99)	–
Index futures – Hong Kong	(475)	(438)	–	–	(475)	(438)
Fair value of derivative financial instruments	52,681	33,178	–	–	52,681	33,178
Total investments	1,520,595	663,168	106,186	108,696	1,626,781	771,864
Representing:						
Non-current	1,404,921	625,533	106,186	108,696	1,511,107	734,229
Current	115,674	37,635	–	–	115,674	37,635
Total investments	1,520,595	663,168	106,186	108,696	1,626,781	771,864

In addition to the above, some investments were classified as held-for-sale as at 31 December 2017 and 2016. Refer to Note 21 for details.

Notes to the consolidated financial statements

For the year ended 31 December 2017

20 Investments (continued)

The Group provided seed capital to set up a number of investment funds, of which the Group acts as the investment manager or investment advisor. As at 31 December 2017 and 2016, except for the consolidated fund disclosed in Note 15.2, the Group determined that all of these investment funds are unconsolidated structured entities. Refer to Note 36.3 for details.

The maximum exposure to loss for all interests in structured entities is the carrying value of the investments in investment funds (refer to Note 36.3) and fees receivable as shown in the consolidated balance sheet. The size of the investment funds ranges from US\$6 million to US\$4.5 billion (2016: US\$1 million to US\$3.5 billion). During the year, other than seed capital, the Group did not provide other financial support to unconsolidated structured entities and has no intention of providing other support.

Investments are denominated in the following currencies:

	2017 HK\$'000	2016 HK\$'000
Australian dollar	434,403	17,634
Hong Kong dollar	361,526	233,603
Renminbi	54,464	15,052
Singapore dollar	10,313	10,109
Taiwan dollar	4,133	4,427
United States dollar	758,284	490,679
Others	3,658	360
Total investments	1,626,781	771,864

20.1 Available-for-sale financial assets

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

	2017 HK\$'000	2016 HK\$'000
Beginning of the year	108,696	108,068
Additions	2,352	2,931
Disposals	(24,440)	–
Fair value gains/(losses) (Notes 12 and 27)	19,578	(2,303)
End of the year	106,186	108,696

There was no impairment provision on available-for-sale financial assets as at 31 December 2017 (2016: Nil).

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For the year ended 31 December 2017

21 Investments held-for-sale

The Group classified some of its 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 31 December 2016, the major assets of these investment funds were listed equity securities.

	Fair value	
	2017 HK\$'000	2016 HK\$'000
Investment funds – Taiwan	–	14,875
Total investments held-for-sale	–	14,875

Income recognized in other gains/(losses) – net relating to investments held-for-sale

	2017 HK\$'000	2016 HK\$'000
Change in unrealized gains/losses on investments held-for-sale	–	(625)
Realized losses on investments held-for-sale	–	(1,399)
Net losses on investments held-for-sale	–	(2,024)

22 Fees receivable

The carrying amounts of fees receivable approximate their fair value due to the short-term maturity. The maximum exposure to credit risk at the reporting date is the carrying amounts of the fees receivable. The Group did not hold any collateral as security as at 31 December 2017 (2016: 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:

	2017 HK\$'000	2016 HK\$'000
Fees receivable that were past due but not impaired		
1 – 30 days	715	490
31 – 60 days	396	1,096
61 – 90 days	246	1,475
Over 90 days	770	2,436
	2,127	5,497
Fees receivable that were within credit period	2,608,949	106,932
Total fees receivable	2,611,076	112,429

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22 Fees receivable (continued)

Fees receivable are denominated in the following currencies:

	2017 HK\$'000	2016 HK\$'000
Australian dollar	916	687
Hong Kong dollar	128,493	22,762
Renminbi	29,133	4,591
United States dollar	2,452,509	84,347
Others	25	42
Total fees receivable	2,611,076	112,429

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 as at 31 December 2017 (2016: Nil).

23 Cash and cash equivalents

	2017 HK\$'000	2016 HK\$'000
Cash at banks and in hand	214,364	183,371
Short-term bank deposits	1,983,784	2,439,201
Deposits with brokers	6,556	6,559
Total cash and cash equivalents	2,204,704	2,629,131

Cash and cash equivalents are denominated in the following currencies:

	2017 HK\$'000	2016 HK\$'000
Australian dollar	8,933	5,766
Hong Kong dollar	1,277,331	1,136,647
Renminbi	295,175	349,635
Singapore dollar	8,257	9,075
Taiwan dollar	10,852	2,891
United States dollar	600,076	1,122,908
Others	4,080	2,209
Total cash and cash equivalents	2,204,704	2,629,131

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24 Other assets

	2017	2016
	HK\$'000	HK\$'000
Restricted bank balances	31,682	6,022
Others	12,789	2,594
Total other assets	44,471	8,616

In accordance with the sale and purchase agreement for the disposal of the BSC Group (Note 33.1), part of the consideration of the transaction amounted to HK\$31,682,000 was paid in cash into an escrow account set up by both the Group and buyer and to be released to the Group in the twenty-fifth month following the date of completion.

In accordance with the Regulations Governing the Conduct of Discretionary Investment Business and the Regulations Governing Offshore Funds of Taiwan, as at 31 December 2016, Value Partners Concord Asset Management Co., Ltd. (the "VP Concord"), a subsidiary of the Group, placed a deposit of NT\$25 million (equivalent to HK\$6,012,000) as a financial guarantee with Bank Sinopac so that it can operate in the business of discretionary investment management and sales of offshore funds in Taiwan. VP Concord was disposed of in 2017. Refer to Note 33.2 for details.

As at 31 December 2017, no bank deposits (2016: RMB9,000 (equivalent to HK\$10,000)) were placed as a minimum reserve for the Group's investment in equity securities in China.

25 Loan portfolio, net

The Group disposed of its loan business in 2017. Refer to Note 33.1 for details.

25.1 Loan portfolio less allowance

	2016
	HK\$'000
Loan portfolio in the People's Republic of China	
Corporate	46,115
Personal	143,300
	189,415
Allowance for impairment	(65,634)
Total loan portfolio, net	123,781
Representing:	
Non-current	67,795
Current	55,986
Total loan portfolio, net	123,781

The fair value of the loan portfolio approximates its carrying value.

As at 31 December 2016, the loan portfolio had a weighted average remaining term of 2.3 years on a contractual basis, without taking into account any prepayment of loans. Final maturity of the loan portfolio is in the year 2021.

Notes to the consolidated financial statements

For the year ended 31 December 2017

25 Loan portfolio, net (continued)**25.2 Allowance for loan impairment**

Collective assessment	2016 HK\$'000
Beginning of the year	3,081
Charged to the consolidated statement of comprehensive income	(918)
Exchange differences	(155)
End of the year	2,008
Individual assessment	2016 HK\$'000
Beginning of the year	29,510
Charged to the consolidated statement of comprehensive income	37,588
Exchange differences	(3,472)
End of the year	63,626

As at 31 December 2016, the allowance for collectively assessed loan impairment amounted to 1.1% of the outstanding principal balances of the loan portfolio, and the allowance for individually assessed loan impairment amounted to 69% of the impaired loan portfolio.

26 Issued equity

	Number of shares	Issued equity HK\$'000
As at 1 January 2016	1,848,714,831	1,377,533
Shares issued upon exercise of share options	3,000,000	13,940
As at 31 December 2016, 1 January 2017 and 31 December 2017	1,851,714,831	1,391,473

As at 31 December 2017, the total authorized number of ordinary shares of the Company was 5,000,000,000 shares (2016: 5,000,000,000 shares) with a par value of HK\$0.1 (2016: HK\$0.1) per share and all issued shares were fully paid.

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.

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26 Issued equity (continued)**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 options 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. No options were granted under the share option scheme for the year ended 31 December 2017 (2016: Nil).

The total expense recognized in the consolidated statement of comprehensive income for share options granted to directors and employees for the year ended 31 December 2017 was HK\$48,773,000 (2016: HK\$89,168,000) which has no impact to the Group's cash flow.

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)
As at 1 January 2016	13.46	148,120
Forfeited	13.60	(6,810)
Forfeited	14.09	(2,710)
Exercised	5.00	(2,000)
Exercised	3.94	(1,000)
As at 31 December 2016	13.63	135,600
As at 1 January 2017	13.63	135,600
Forfeited	13.60	(10,870)
Forfeited	14.09	(5,010)
As at 31 December 2017	13.61	119,720

Out of the 119,720,000 (2016: 135,600,000) outstanding share options, 93,170,000 (2016: 66,986,000) options were exercisable as at 31 December 2017 with weighted average exercise price of HK\$13.62 (2016: HK\$13.43) per share. No options were exercised during the year ended 31 December 2017 (2016: 3,000,000).

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26 Issued equity (continued)**Share options (continued)**

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

Expiry date	Exercise price (HK\$ per share)	Number of options ('000)	
		2017	2016
11 November 2021	13.60	26,550	37,420
16 December 2021	14.09	88,570	93,580
30 May 2022	3.94	600	600
6 December 2022	4.56	4,000	4,000

The measurement dates of the share options were 17 June 2015, 12 May 2015, 7 December 2012, 31 May 2012, being the dates of grant of the share options, and 27 July 2015, being the date of the Group's extraordinary general meeting approving the grant of 54,800,000 share options to Dato' Seri Cheah. 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. Forfeiture rate is also considered in determining the amount of share option expenses.

27 Other reserves

	Share-based compensation reserve ^(a) HK\$'000	Revaluation reserve HK\$'000	Capital redemption reserve HK\$'000	Capital reserve ^(b) HK\$'000	Foreign exchange translation reserve HK\$'000	Regulatory reserve HK\$'000	Total HK\$'000
As at 1 January 2016	270,165	15,662	240	(2,182)	(21,257)	455	263,083
Share-based compensation (Note 8)	89,168	–	–	–	–	–	89,168
Transfer of share-based compensation reserve upon exercise, forfeiture or expiry of share options	(166,391)	–	–	–	–	–	(166,391)
Fair value losses on available-for-sale financial assets (Note 20.1)	–	(2,303)	–	–	–	–	(2,303)
Foreign exchange translation reserve	–	–	–	–	(35,042)	–	(35,042)
As at 31 December 2016	192,942	13,359	240	(2,182)	(56,299)	455	148,515
As at 1 January 2017	192,942	13,359	240	(2,182)	(56,299)	455	148,515
Share-based compensation (Note 8)	48,773	–	–	–	–	–	48,773
Transfer of share-based compensation reserve upon exercise, forfeiture or expiry of share options	(11,489)	–	–	–	–	–	(11,489)
Fair value gains on available-for-sale financial assets (Notes 12 and 20.1)	–	19,578	–	–	–	–	19,578
Foreign exchange translation reserve	–	–	–	–	17,013	–	17,013
Reclassification of foreign exchange reserve due to disposal of foreign operations	–	–	–	–	31,065	–	31,065
Disposal of subsidiaries	–	–	–	2,182	–	(455)	1,727
As at 31 December 2017	230,226	32,937	240	–	(8,221)	–	255,182

(a) Share-based compensation reserve comprises the fair value of share options granted which are yet to be exercised. The amount will be transferred to retained earnings when the related options are exercised, expired or forfeited.

(b) Capital reserve arises from transactions with non-controlling interests that do not result in a loss of control.

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28 Distribution fee expenses payable

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

	2017 HK\$'000	2016 HK\$'000
0 – 30 days	154,144	103,357
31 – 60 days	61	2,129
61 – 90 days	76	244
Over 90 days	674	237
Total distribution fee expenses payable	154,955	105,967

Distribution fee expenses payable are denominated in the following currencies:

	2017 HK\$'000	2016 HK\$'000
United States dollar	152,202	105,967
Others	2,753	–
Total distribution fee expenses payable	154,955	105,967

29 Deferred tax

The movement of deferred tax assets is as follows:

Deferred tax assets	Accelerated tax depreciation HK\$'000	Tax losses HK\$'000	Total HK\$'000
As at 1 January 2016	(1,495)	11,648	10,153
Credited to the consolidated statement of comprehensive income	469	4,762	5,231
As at 31 December 2016	(1,026)	16,410	15,384
As at 1 January 2017	(1,026)	16,410	15,384
Credited to the consolidated statement of comprehensive income (Note 11)	1,148	–	1,148
Disposal of a subsidiary	–	(16,410)	(16,410)
As at 31 December 2017	122	–	122

The analysis of deferred tax assets is as follows:

	2017 HK\$'000	2016 HK\$'000
Deferred tax assets:		
– Deferred tax asset to be recovered after more than 12 months	122	15,029
– Deferred tax asset to be recovered within 12 months	–	355
	122	15,384

Deferred tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable.

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30 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 proportion of the fund owned by third party investors.

31 Financial instruments by category

	2017 HK\$'000	2016 HK\$'000
Category of financial assets		
Loans and receivables		
Loan portfolio, net (Note 25)	–	123,781
Restricted bank balances (Note 24)	31,682	6,022
Fees receivable (Note 22)	2,611,076	112,429
Amounts receivable on sale of investments	41,974	–
Prepayment and other receivables	63,184	14,396
Deposits with brokers	36,331	175,310
Time deposits	–	43,781
Cash and cash equivalents (Note 23)	2,204,704	2,629,131
	4,988,951	3,104,850
Financial assets at fair value through profit or loss		
Investments (Note 20)	1,532,395	667,289
Investments held-for-sale (Note 21)	–	14,875
	1,532,395	682,164
Available-for-sale financial assets		
Investments (Note 20)	106,186	108,696
Category of financial liabilities		
Financial liabilities at fair value through profit or loss		
Investments (Note 20)	11,800	4,121
Other financial liabilities at amortized cost		
Accrued bonus	682,218	53,501
Distribution fee expenses payable (Note 28)	154,955	105,967
Amounts payable on purchase of investments	15,435	–
Other payables and accrued expenses	49,005	25,021
Other financial liabilities (Note 30)	3,991	4,527
	905,604	189,016

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32 Notes to the consolidated cash flow statement

	Note	2017 HK\$'000	2016 HK\$'000
Profit before tax			
– Continuing operations		2,435,059	177,250
– Discontinued operations	33.1	(38,670)	(17,033)
Adjustments for			
Interest income from loan portfolio		–	(33,893)
Interest income on cash and cash equivalents, time deposits and restricted bank balances		(27,125)	(19,339)
Dividend income		(11,732)	(21,142)
Share-based compensation		48,773	89,168
Depreciation and amortization		16,252	13,889
Charge of loan impairment allowances		–	36,670
(Gains)/losses on disposal of subsidiaries			
– Continuing operations	33.2	(11,173)	–
– Discontinued operations	33.1	10,542	–
Foreign exchange losses reclassified to profit or loss on disposal of foreign operations			
– Continuing operations	33.2	2,117	–
– Discontinued operations	33.1	28,948	–
Other (gains)/losses – net		(198,829)	3,106
Changes in working capital			
Other assets		(10,588)	(33)
Fees receivable		(2,498,647)	93,613
Loan portfolio, net		14,573	92,422
Deposits with brokers		138,979	(175,310)
Time deposits		4,735	26,292
Prepayments and other receivables		(18,874)	(3,204)
Accrued bonus		628,717	(89,356)
Distribution fee expenses payable		48,988	(10,996)
Other payables and accrued expenses		40,857	(5,795)
Other financial liabilities		(536)	4,527
Net cash generated from operations		602,366	160,836

33 Disposal of subsidiaries**33.1 Under discontinued operations**

On 25 April 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, the Group's small loan business in Chengdu (collectively, the "BSC Group"). The transaction was completed in October 2017. The net consideration was HK\$303 million, and a loss on disposal of HK\$10.5 million was recognized. Upon the disposal of this foreign operation, previously recognized foreign exchange losses of HK\$28.9 million was reclassified from foreign exchange translation reserve to the profit or loss. This disposal group's results are presented in the consolidated financial statement as a discontinued operation. Comparative figures relating to this discontinued operation on the consolidated statement of comprehensive income have been re-presented.

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33 Disposal of subsidiaries (continued)**33.1 Under discontinued operations (continued)**

Financial information relating to the discontinued operations is as follows:

	2017	2016
	HK\$'000	HK\$'000
Income	1,384	34,516
Other income	1,530	5,008
Expenses	(1,456)	(58,636)
Other (losses)/gains – net	(638)	2,079
Loss on disposal of BSC Group	(10,542)	–
Reclassification of foreign exchange translation reserve to the profit or loss	(28,948)	–
Operating loss (after other gains/losses) and loss before tax from discontinued operations	(38,670)	(17,033)
Tax expense	190	3,603
Loss for the year from discontinued operations	(38,480)	(13,430)
Loss for the year from discontinued operations attributable to Owners of the Company	(38,480)	(11,728)
Non-controlling interests	–	(1,702)
	(38,480)	(13,430)

The net cash flows attributable to the discontinued operations are as follows:

	2017	2016
	HK\$'000	HK\$'000
Net cash (used in)/generated from operating activities	(164,614)	96,443
Net cash used in financing activities	–	(59,800)
Net foreign exchange gains/(losses) on cash and cash equivalents	3,230	(24,252)
Total net cash flows	(161,384)	12,391

Notes to the consolidated financial statements

For the year ended 31 December 2017

33 Disposal of subsidiaries (continued)**33.1 Under discontinued operations (continued)**

Details of the disposal of BSC Group:

	HK\$'000
Consideration	
Consideration settled in cash	205,715
Consideration paid in cash into an escrow account (Note 24)	31,682
Consideration in ordinary shares issued by the holding company of the purchaser of the transaction	68,645
Net consideration receivables	4,925
Disposal related costs	(8,111)
Net consideration	302,856

The assets and liabilities of BSC Group disposed of at the completion date comprise:

	HK\$'000
Property, plant and equipment	365
Intangible assets	195
Deferred tax assets	16,674
Loan portfolio, net	109,208
Prepayments and other receivables	3,987
Time deposits and cash and cash equivalents	233,497
Other payables and accrued expenses	(15,715)
Net assets disposed of	348,211
Non-controlling interests	(34,813)
Share of net assets disposed of	313,398
Net consideration	302,856
Loss on disposal	(10,542)
Reclassification of foreign exchange translation reserve to the profit or loss	(28,948)
Net cash flows on disposal of subsidiaries	
Consideration settled in cash	205,715
Disposal related costs	(8,111)
Time deposits and cash and cash equivalents disposed of	(233,497)
Net cash outflows in respect of the disposal	(35,893)

Notes to the consolidated financial statements

For the year ended 31 December 2017

33 Disposal of subsidiaries (continued)**33.2 Under continuing operations**

On 29 June 2017, the Group entered into another sale and purchase agreement with a third party to sell its 62.05% equity interest in VP Concord, an investment management business in Taiwan, for a consideration of HK\$35 million (representing the Group's 62.05% ownership). The transaction was completed in August 2017. A gain on disposal of HK\$11.2 million was recognized. Upon the disposal of this foreign operation, previously recognized foreign exchange losses of HK\$2.1 million was reclassified from foreign exchange translation reserve to the profit or loss.

Details of the disposal of VP Concord:

	HK\$'000
Consideration	
Cash consideration	34,852
Disposal related costs	(967)
Net consideration	33,885

The assets and liabilities of VP Concord disposed of at the completion date comprise:

	HK\$'000
Property, plant and equipment	698
Intangible assets	52
Other assets	6,415
Investments	1,463
Fee receivables, prepayments and other receivables	678
Time deposits and cash and cash equivalents	42,875
Other payables and accrued expenses	(897)
Net assets disposed of	51,284
Non-controlling interests	(28,572)
Share of net assets disposed of	22,712
Net consideration	33,885
Gain on disposal	11,173
Reclassification of foreign exchange translation reserve to the profit or loss	(2,117)
Net cash flows on disposal of subsidiaries	
Consideration settled in cash	34,852
Disposal related costs	(967)
Time deposits and cash and cash equivalents disposed of	(42,875)
Net cash outflows in respect of the disposal	(8,990)

Notes to the consolidated financial statements

For the year ended 31 December 2017

34 Commitments

34.1 Operating lease commitments

The Group leases various offices and office equipment under non-cancellable operating lease agreements. The lease terms are between one year 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:

	2017 HK\$'000	2016 HK\$'000
Not later than one year	42,923	24,391
Later than one year and not later than five years	60,545	16,060
Total operating lease commitments	103,468	40,451

34.2 Capital commitments

As at 31 December 2017, the Group has unfunded capital commitment in a private equity fund amounted to US\$295,000 (equivalent to HK\$2,307,000) (2016: US\$375,000 (equivalent to HK\$2,910,000)). As at the end of the year, the capital commitment contracted to purchase licensed software but not yet incurred amounted to HK\$1,256,000 (2016: HK\$1,548,000).

35 Contingencies

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

35.1 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 recognized when they are earned by the Group.

As a result, as at 31 December 2017 and 2016, performance fees in respect of performance periods ending on a performance fee valuation day not falling within the corresponding year have not been recognized. 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.

Notes to the consolidated financial statements

For the year ended 31 December 2017

35 Contingencies (continued)

35.2 Contingent liabilities

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

As a result, as at 31 December 2017 and 2016, the performance fee element of distribution fee expenses in respect of performance periods ending on a performance fee valuation day not falling within the corresponding year have not been recognized. These distribution fee expenses may be payable in cash if the performance fees are subsequently earned on the performance fee valuation days.

36 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 elsewhere in the consolidated financial statements, 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.

36.1 Summary of transactions entered into during the ordinary course of business with related parties

	2017 HK\$'000	2016 HK\$'000
Corporate capital note issued by a company of which a close family member of key management personnel is a member	2,500	–
Consultancy fee to a close family member of key management personnel	289	289

36.2 Key management compensation

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

	2017 HK\$'000	2016 HK\$'000
Management bonus, salaries and other short-term employee benefits	334,794	36,255
Share-based compensation	23,819	46,944
Pension costs	72	69
Total key management compensation	358,685	83,268

Notes to the consolidated financial statements

For the year ended 31 December 2017

36 Related-party transactions (continued)**36.3 Investments in investment funds which are managed/advised by the Group**

The Group has interests in the following consolidated and unconsolidated structured entities. These are the investment funds under the Group's management or advisory and from which it earns fees from investment management or advisory activities and fund distribution activities. These investment funds manage pools of assets from third party investors, and are financed through the issue of units/shares to investors.

	Fair value	
	2017 HK\$'000	2016 HK\$'000
Consolidated structured entities		
Value Partners Big Data Fund (Note 15.2)	94,309	87,812
Value Partners Asia Pacific Real Estate Limited Partnership (Note 15.2)	620,577	–
Unconsolidated structured entities		
AMG Managers Value Partners Asia Dividend Fund (previously known as ASTON/Value Partners Asia Dividend Fund)	77,311	60,395
Premium Asia Income Fund	21,023	17,573
Value China ETF	6,003	4,671
Value Gold ETF	161,713	142,179
Value Japan ETF	10,864	8,932
Value Korea ETF	10,395	7,815
Value Partners Asia Fund, LLC	364	280
Value Partners China A-Share Select Fund ^(a)	100	74
Value Partners Classic Fund ^(c)	330	–
Value Partners Concord Greater China Value Fund	–	14,874
Value Partners Global Contrarian Fund ^(b)	17,263	13,716
Value Partners Greater China High Yield Income Fund ^(d)	1	1
Value Partners Ireland Fund Plc – Value Partners Health Care Fund (Note 19.1)	46,334	38,063
Value Partners Hedge Fund Limited ^(d)	2	2
Value Partners High-Dividend Stocks Fund ^(e)	365	266
Value Partners Intelligent Funds – China Convergence Fund ^(a)	46,850	65,672
Value Partners Intelligent Funds – Chinese Mainland Focus Fund	138,636	170,698
Value Partners Multi-Asset Fund	44,300	37,908
Value Taiwan ETF	12,150	9,765
金海九號證券投資集合資金信託計劃	50,327	13,869
Value Partners Ireland Fund Plc – Value Partners Global Emerging Market Bond Fund ^(f)	82,726	–
Value Partners Fixed Income SPC – Value Partners Credit Opportunities Fund SP ^(g) (Note 19.1)	198,448	–
興業信託·興易惠理1號	1,223	–
Total investments in investment funds which are managed/advised by the Group	1,641,614	694,565

(a) The units held were Class A units.

(b) The Group has waived its voting rights in respect of its holdings.

(c) The units held were "C" units.

(d) The shares held were management shares.

(e) The units held were Class A2 MDis units.

(f) The units held were Class A Acc and Class X Acc units.

(g) The units held were Class A Acc, Class V Acc and Class Z Acc units.

Notes to the consolidated financial statements

For the year ended 31 December 2017

36 Related-party transactions (continued)**36.4 Investments in an investment fund managed by a related company**

As at 31 December 2017, the Group had investments in Malabar India Fund, LP amounted to HK\$41,207,000 (2016: HK\$25,689,000) which is managed by Malabar Investment LLC in which the Group had an interest of 6.6% (2016: 6.6%).

36.5 Amounts due from and to subsidiaries

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

36.6 Dividends receivable

The amount is an interim dividend for the year ended 31 December 2017 and 2016 declared by Value Partners Hong Kong Limited to Value Partners Group Limited. The amount is unsecured and non-interest bearing.

37 Balance sheet and reserve movement of the Company**Balance Sheet of the Company**

	Note	2017 HK\$'000	2016 HK\$'000
Non-current assets			
Investment in subsidiaries		1,419,820	1,401,293
Amounts due from subsidiaries		612,321	951,718
Other assets		31,682	–
		2,063,823	2,353,011
Current assets			
Dividends receivable	36.6	2,230,000	300,000
Prepayments and other receivables		15,594	579
Cash and cash equivalents		500,608	133,182
		2,746,202	433,761
Current liabilities			
Other payables and accrued expenses		11,906	1,125
Net current assets		2,734,296	432,636
Non-current liabilities			
Amounts due to subsidiaries		156,372	175,359
Net assets		4,641,747	2,610,288
Equity			
Issued equity		2,258,286	2,258,286
Other reserves	(a)	230,466	193,182
Retained earnings	(a)	2,152,995	158,820
Total equity		4,641,747	2,610,288

On behalf of the Board

SO Chun Ki Louis
Director

AU King Lun
Director

Notes to the consolidated financial statements

For the year ended 31 December 2017

37 Balance sheet and reserve movement of the Company (continued)**(a) Reserve movement of the Company**

	Share-based compensation reserve HK\$'000	Capital redemption reserve HK\$'000	Retained earnings HK\$'000
As at 1 January 2016	270,165	240	8,432
Share-based compensation	89,168	–	–
Transfer of share-based compensation reserve upon exercise, forfeiture or expiring of share options (Note 27)	(166,391)	–	166,391
Profit for the year	–	–	279,790
Dividends	–	–	(295,793)
As at 31 December 2016	192,942	240	158,820
As at 1 January 2017	192,942	240	158,820
Share-based compensation	48,773	–	–
Transfer of share-based compensation reserve upon exercise, forfeiture or expiring of share options (Note 27)	(11,489)	–	11,489
Profit for the year	–	–	2,204,892
Dividends	–	–	(222,206)
As at 31 December 2017	230,226	240	2,152,995

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For the year ended 31 December 2017

38 Benefits and interests of directors**38.1 Directors' and chief executive's emoluments**

The remuneration of each director and chief executive of the Company is as follows:

	Fees HK\$'000	Salaries HK\$'000	Management bonus HK\$'000	Estimated money value of other benefits ^(a) HK\$'000	Pension costs HK\$'000	Total HK\$'000
Year ended 31 December 2017						
<i>Executive directors</i>						
Dato' Seri Cheah, Cheng Hye	–	6,726	126,013	10,310	18	143,067
Mr. So, Chun Ki Louis	–	3,873	98,153	11,282	18	113,326
Ms. Hung, Yeuk Yan Renee	–	2,610	60,528	8,042	18	71,198
Dr. Au, King Lun ^(b)	–	3,510	27,500	66	18	31,094
<i>Independent non-executive directors</i>						
Dr. Chen, Shih Ta Michael	306	–	300	206	–	812
Mr. Lee, Siang Chin	306	–	300	435	–	1,041
Mr. Oyama, Nobuo	306	–	300	206	–	812
	918	16,719	313,094	30,547	72	361,350
Year ended 31 December 2016						
<i>Executive directors</i>						
Dato' Seri Cheah, Cheng Hye	–	6,562	8,730	20,494	18	35,804
Mr. So, Chun Ki Louis	–	3,778	6,100	15,651	18	25,547
Ms. Hung, Yeuk Yan Renee	–	2,547	4,400	10,763	18	17,728
Mr. Tse, Wai Ming, Timothy ^(c)	–	2,558	180	1,436	15	4,189
<i>Independent non-executive directors</i>						
Dr. Chen, Shih Ta Michael	300	–	–	360	–	660
Mr. Lee, Siang Chin	300	–	–	440	–	740
Mr. Oyama, Nobuo	300	–	–	365	–	665
<i>Chief executive officer</i>						
Dr. Au, King Lun ^(b)	–	174	1,800	3	2	1,979
	900	15,619	21,210	49,512	71	87,312

(a) Other benefits mainly include share-based compensation, 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, insurance premium and professional bodies' membership.

(b) Appointed as chief executive officer on 12 December 2016, and as executive director on 7 March 2017.

(c) Resigned on 1 November 2016.

None of the directors received or will receive any fees, inducement fees or compensation for loss of office as director for the year ended 31 December 2017 (2016: Nil). No directors waived or agreed to waive any emoluments for the year ended 31 December 2017 (2016: Nil).

38.2 Directors' material interests in transactions, arrangement or contracts

No significant transactions, arrangement and contracts in relation to the Group's business to which the Company 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.

Particulars of subsidiaries

As at 31 December 2017, 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
Chief Union Investments Limited	Hong Kong	Money lending in Hong Kong	HK\$1
Hong Kong Asset Management Group Limited	Hong Kong	Dormant	HK\$1
Hong Kong Fund Management Group Limited	Hong Kong	Dormant	HK\$1
Rough Seas Capital Holdings Limited	Hong Kong	Dormant	HK\$1,000,000
Sensible Asset Management Hong Kong Limited	Hong Kong	Investment management in Hong Kong	HK\$77,314,734
Sensible Asset Management Limited	British Virgin Islands	Investment management in Hong Kong	US\$200,000
Value Executive Solutions Co. Limited	Hong Kong	Dormant	HK\$1
Value Funds Limited	Hong Kong	Investment holding	HK\$1
Value Partners (Cayman GP) II Ltd	Cayman Islands	Managing member of two investment funds managed by Value Partners Limited	US\$1
Value Partners (UK) Limited	United Kingdom	Investment management in United Kingdom	GBP50,000
Value Partners Asset Management Singapore Pte. Ltd.	Singapore	Investment management in Singapore	S\$1,000,000
Value Partners Corporate Consulting Limited	Hong Kong	Dormant	HK\$5,000,000

Particulars of subsidiaries

Name	Place of incorporation	Principal activities and place of operation	Issued share capital
Value Partners Hong Kong Limited	Hong Kong	Investment management, investment holding and securities dealing in Hong Kong	HK\$385,000,000
Value Partners Index Services Limited	Hong Kong	Indexing services in Hong Kong	HK\$1
Value Partners Investment Advisory Limited	Hong Kong	Consulting services in Hong Kong	HK\$25,000,000
Value Partners Limited	British Virgin Islands	Investment management, investment holding and securities dealing in Hong Kong	US\$1,530,278
Value Partners Private Equity Limited	British Virgin Islands	Investment management and provision of research and investment advisory services in Hong Kong	US\$700,000
Value Partners Technology Solutions Limited	Hong Kong	Providing information technology services	HK\$1
Value Partners Technology Systems Limited	Hong Kong	Providing robo-advisory services	HK\$20,000,000
Valuegate Holdings Limited	British Virgin Islands	Trademark holding in Hong Kong	US\$2
惠理海外投資基金管理(上海)有限公司	PRC	Investment advisory in PRC	Registered capital of RMB20,000,000 有限責任公司(獨資)
惠理投資管理(上海)有限公司	PRC	Investment management and advisory in PRC	Registered capital of RMB50,000,000 有限責任公司 (台港澳法人獨資)
惠理股權投資管理(深圳)有限公司	PRC	Equity investment in PRC	Registered capital of RMB13,000,000 有限責任公司(獨資)

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