



2018

INTERIM REPORT

中期報告

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\$17.2 billion as of 30 June 2018.

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 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 Shanghai, Beijing, 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\$**17.2** billion⁽¹⁾
assets under management

170+

top performing awards and prizes since establishment

2,500

company visits and research meetings every year

15.2%

annualized return and **3,426.0%** cumulative return since launch in 1993 for Value Partners Classic Fund (A Units)⁽²⁾

2017

Management Firm of the Year⁽³⁾

About **70**

investment professionals focusing on Greater China and Asia investments

25 years

of history weathered various financial crises regionally and globally

Footnote:

(1) As of 30 June 2018.

(2) As of 30 June 2018. Performance of Value Partners Classic Fund (A Units) over past five years: 2013: +11.2%; 2014: +13.5%; 2015: -1.5%; 2016: -3.2%; 2017: +44.9%; 2018 (Year to date as at 30 June: -4.4%).

(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. Nobuo OYAMA
Mr. WONG Poh Weng

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. WONG Poh Weng (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. Nobuo OYAMA
Mr. WONG Poh Weng

Members of the Remuneration Committee

Dr. CHEN Shih-Ta Michael (Chairman)
Dato' Seri CHEAH Cheng Hye
Mr. Nobuo OYAMA
Mr. SO Chun Ki Louis
Mr. WONG Poh Weng

Members of the Risk Management Committee

Dr. AU King Lun MH, PhD (Chairman)
Mr. Roger Anthony HEPPER
Ms. LEE Vivienne
Mr. SO Chun Ki Louis
Ms. WONG York Ying, Ella
Mr. CHENG Tsz Chung

Registered Office

Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Principal Office

43rd Floor, The Center
99 Queen's 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

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

(In HK\$ million)	For the period ended 30 June		
	2018	2017	% Change
Total revenue	958.1	752.2	+27.4%
Gross management fees	712.9	546.7	+30.4%
Gross performance fees	50.7	22.3	+127.4%
Operating profit (before other gains/losses)	246.1	140.3	+75.4%
Profit attributable to owners of the Company	194.3	219.5	-11.5%
Basic earnings per share (HK cents)	10.5	11.8	-11.0%
Diluted earnings per share (HK cents)	10.5	11.8	-11.0%
Interim dividend per share	Nil	Nil	

(In US\$ million)	30 June 2018	31 December 2017	% Change
Assets under management	17,191	16,594	+3.6%

Report of the Chief Executive Officer

At the beginning of 2018, our funds started to adopt a more defensive positioning after what was one of the best years in recent history for asset managers. Our cautious stance proved prudent as a combination of factors including escalating U.S.-China trade tensions upended global financial markets in recent months. In operating our business, we are adopting a similarly cautious stance as we strictly enforce our stringent cost controls to navigate this bout of volatility. However, the passing turbulence hasn't detracted from our progress towards achieving our strategic goal of becoming a world-class asset manager that serves as an investment solutions provider to investors in China and a China investments expert to investors from the rest of the world. We are pleased to share that we have made significant inroads with our business on the mainland of China in the first half of 2018. We have also made notable progress in broadening our product suite and strengthening our distribution capabilities.

Financial review

Despite the challenging market backdrop, our assets under management ("AUM") logged growth for the first half of 2018 as we saw an important reversal in fund flows. As at the end of June 2018, our unaudited AUM totaled US\$17.2 billion, which is up from US\$16.6 billion at the end of 2017 and US\$15.5 billion a year ago. For the first half of 2018, we recorded net inflows of US\$1.6 billion, which compares to the US\$278 million of net outflows for full-year 2017. The net inflow was underpinned by continued strong demand for our flagship fixed income fund and the growth of our business on the mainland of China.

On the back of the AUM growth, our net management fees increased 27% year-on-year to HK\$410 million. Our net management fee margin also widened to 60 basis points as our flagship fixed income fund – which carries a higher management fee rate compared to our absolute-return long-biased equity funds – continued to attract strong inflows. On the back of the higher management fees, as well as our strict cost controls, operating profit jumped 75% compared to a year ago to HK\$246 million. However, a loss recorded on the marking to market of investments due to the weak market backdrop saw profit attributable to owners of the Company decline 11% year-on-year to HK\$194 million in the first half of 2018.

Gathering momentum on the mainland of China

The first half of 2018 marked the beginning of the conversion of opportunities into results for Value Partners on the mainland of China. In early January, we launched our first own-branded private investment securities fund in China's domestic market after having become the first Hong Kong-based asset manager to be granted a private fund management ("PFM") license in November 2017. The fund was able to attract an AUM of more than CNY100 million during its initial fundraising stage. Most of that AUM also comprised of external money invested by clients rather than internal seed capital. As of the end of June, the AUM of our inaugural PFM fund stood at around CNY150 million, and we continue to see solid investor appetite for the product. In light of this momentum, we launched our second PFM fund in July and plan to launch another PFM fund this year, subject to regulatory approval. Similar to most of our own-branded absolute-return long-biased equity funds, our PFM funds carry a performance fee.

We also made our first foray into the private equity space on the mainland of China with the opening of our Shenzhen office in January. Our Shenzhen subsidiary, Value Partners Private Equity Investment Management (Shen Zhen) Limited, is licensed through the Qualified Foreign Limited Partnership ("QFLP") program to raise funds both onshore and offshore to invest in private equity projects on the mainland of China. In June, our Shenzhen subsidiary entered into a framework agreement with a subsidiary of China Education Group, one of China's largest private higher education companies, to establish a private equity fund¹ that invests primarily in China's higher education and vocational education segments. The fund will be among the first to enable both Chinese and global investors to invest directly in China's rapidly growing private education sector. It is scheduled to launch in early 2019, subject to regulatory approval, and has a target AUM of CNY5 billion with a five-year term that's extendable for two additional one-year periods. Value Partners and China Education Group are studying the recently announced new initiative from the Chinese government to strengthen regulation of the education sector. Pending further clarification, we believe that the actual impact on the proposed fund's activities will be neutral to positive, as it would increase the barriers to entry into the industry for all but the strongest players.

Report of the Chief Executive Officer

Additionally, we expect approval for our flagship Classic Fund to join the Mutual Recognition of Funds (“MRF”) program in the near future – assuming there isn’t a significant shift in government policy towards cross-border capital flows. Once approved, we will be able to potentially double the AUM of our US\$1.4 billion Classic Fund through distributing the fund to retail investors on the mainland of China. Earlier this year, we also applied for our US\$3.1 billion High Dividend Stocks Fund to join the MRF program.

Our AUM from China stood at slightly over US\$1 billion as of the end of June, which is up around 30% compared to the end of 2017. The growth was mainly underpinned by the winning of new mandates, strong inflows into existing accounts and the launch of our first PFM fund.

Product suite expansion

We have further expanded our fixed income product suite and deepened our push into the alternatives arena during the first half of 2018. In addition to the launch of our inaugural private equity fund on the mainland of China, our Asia-Pacific private equity real estate platform, which launched in June 2017, continues to make exciting progress. Its first fund¹ has now deployed more than 75% of its capital and has been adding onto its strong performance track record. We expect to acquire two more assets for the fund in the second half of 2018.

Alternatives will play a central role in the next stage of our product suite expansion now that we have completed most of the groundwork for growing our fixed income offerings. We anticipate strong demand for alternative investment funds in Asia as investors increasingly look to diversify across multiple asset classes. A survey of 450 institutional investors in Asia conducted by BNY Mellon and The Financial Times earlier this year found 53% of respondents plan to increase their allocation to alternatives in the next 12 months². At the same time, the ripening ecosystem for alternative investments in China presents an exciting investment opportunity set that is attractive to fund investors globally. The low correlation in performance and flows between alternatives and traditional asset classes also make the asset class an apt addition to our AUM mix. In the coming year, we look to add a sizeable private debt fund¹ to complement the strongly performing fixed income hedge fund¹ that we launched late last year. We are also preparing to launch a second real estate private equity fund¹, which has the same investment strategy as our first fund.

Our fixed income product suite now encompasses six funds that cover most of the risk spectrum following the launch of our Asian Total Return Bond Fund in April. Despite industry-wide net redemptions for high yield bond funds in Hong Kong in the first half of 2018³, our flagship Greater China High Yield Income Fund continued to see strong net inflows, which totaled US\$1.5 billion for the period.

A year after its formation, our quantitative investment solutions (“QIS”) business is making promising progress in developing new business initiatives and products to monetize its capabilities. We see opportunities to formulate Southeast Asia-focused quant and ETF offerings. We also see opportunities to provide platform services as we look forward to the expected launch of ETF Connect in the near future.

A global presence

Value Partners is on track to open an office in the U.S. later this year. The office will serve as a distribution hub that will allow us to better access and engage with institutional investors in North America as appetite for China and Asian investments among this segment builds. Similar to our London office, our U.S. office will launch with a lean structure and have a gradual ramp up that will not significantly impact costs.

Report of the Chief Executive Officer

In addition to a U.S. office, we also plan to open a Malaysia office this year. Our Malaysia office and our existing Singapore office will complement each other in our coverage of Southeast Asia both products-wise and distribution-wise. Additionally, Malaysia will house our Southeast Asia-focused QIS initiatives and potential new business areas such as Shariah-compliant funds. On the distribution front, a Malaysia office also makes for a natural extension to the strong distribution network and brand that we already have in the country.

In Europe, our U.K. subsidiary received approval from the Financial Conduct Authority in March to provide regulated products and services in the U.K.. Additionally, we are looking to add core-China equity fund to the five equity and one fixed income funds that we are already distributing in Europe.

Beyond our more established markets, we are seeing strong investor interest in our products in the Middle East, Africa and North Asia. In Taiwan, we have recorded inflows into our equity funds from major institutional clients and are planning a number of distribution partnerships, while in South Korea, we are also working on strategic distribution partnerships with major investment houses and securities firms. Our key business partner in Japan has also contributed to inflows.

In line with our push into the alternatives arena, we have been making efforts to boost recognition of the Value Partners brand among global institutional investors. On the back of the appointment of our new Head of Sales – who has more than two decades of institutional sales experience – we have been conducting manager research reviews with a number of leading fund consultants around the world. We have also rolled out an initiative called Value Partners Academy to provide targeted knowledge sharing with institutional investors.

To streamline our engagement with our intermediary distribution partners, we will be rolling out a Value Partners app that will provide real-time fund information and commentary at the touch of a button. On the marketing front, we have been increasingly embracing low-cost and high-impact channels including thought leadership and content marketing and strengthening relations with global media platforms to boost our earned media presence.

Appreciation

I'd like to thank all of our shareholders, clients and business partners for their invaluable support through both the ups and downs of market cycles. I'd also like to thank our colleagues for their dedication and hard work. Despite the market volatility that we have experienced in the first half of 2018, we have made good progress towards accomplishing our strategic goal and are well positioned – given our agility and culture of innovation as an independent asset manager – to capture the golden opportunity presented by China's vast potential as both an asset management market and an investment destination.

Dr. AU King Lun MH, PhD

Chief Executive Officer and Executive Director

1. *The fund is not authorized by the Securities and Futures Commission and is not available to the general public in Hong Kong.*
2. *Information retrieved from report titled A new, alternatives focused investor reality by BNY Mellon, in association with FT Remark, in 2018*
3. *Source: Hong Kong Investment Funds Association, July 2018*

Financial review

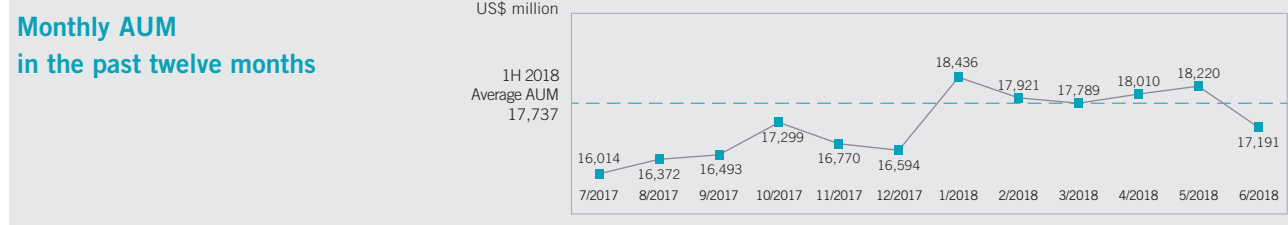
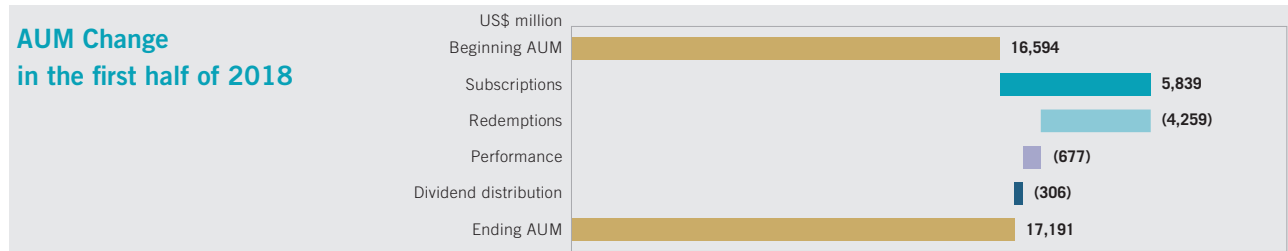
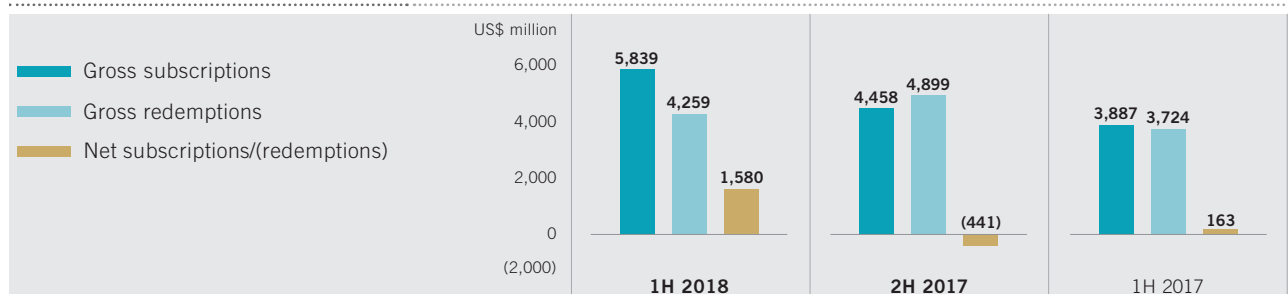
Assets Under Management

AUM and return

The Group's AUM increased to US\$17,191 million at the end of June 2018 (31 December 2017: US\$16,594 million). The growth was mainly due to net subscriptions of US\$1,580 million in the first half of 2018.

Overall fund performance¹, calculated as asset-weighted average return of funds under management, was -3.0% in the period under review. Among our funds, the Value Partners Greater China High Yield Income Fund², the Group's largest public fund³ in Hong Kong, recorded a decline of 2.9% during the period. The Value Partners Classic Fund⁴, our flagship product, fell 4.4% during the period, while the Value Partners High-Dividend Stocks Fund⁵ slid 4.2% during the period.

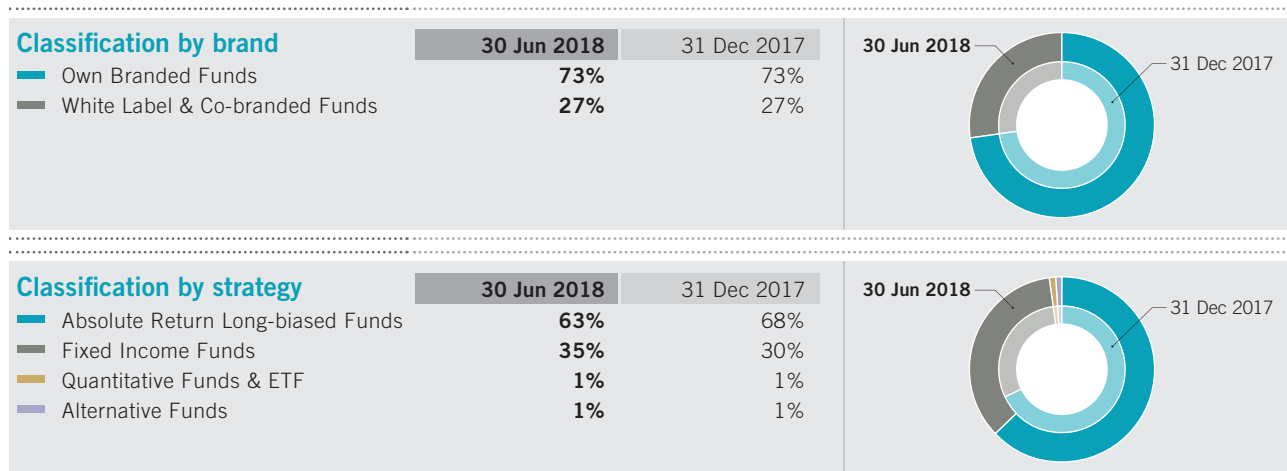
Despite the weakened market sentiment, we recorded a net inflow of US\$1,580 million in the first half of 2018, reversing the net outflow in 2017 (2H 2017: net redemptions of US\$441 million; 1H 2017: net subscriptions of US\$163 million). The net inflow in the first half of 2018 was accounted for by gross subscriptions of US\$5,839 million (2H 2017: US\$4,458 million; 1H 2017: US\$3,887 million) and gross redemptions of US\$4,259 million (2H 2017: US\$4,899 million; 1H 2017: US\$3,724 million).



Financial review

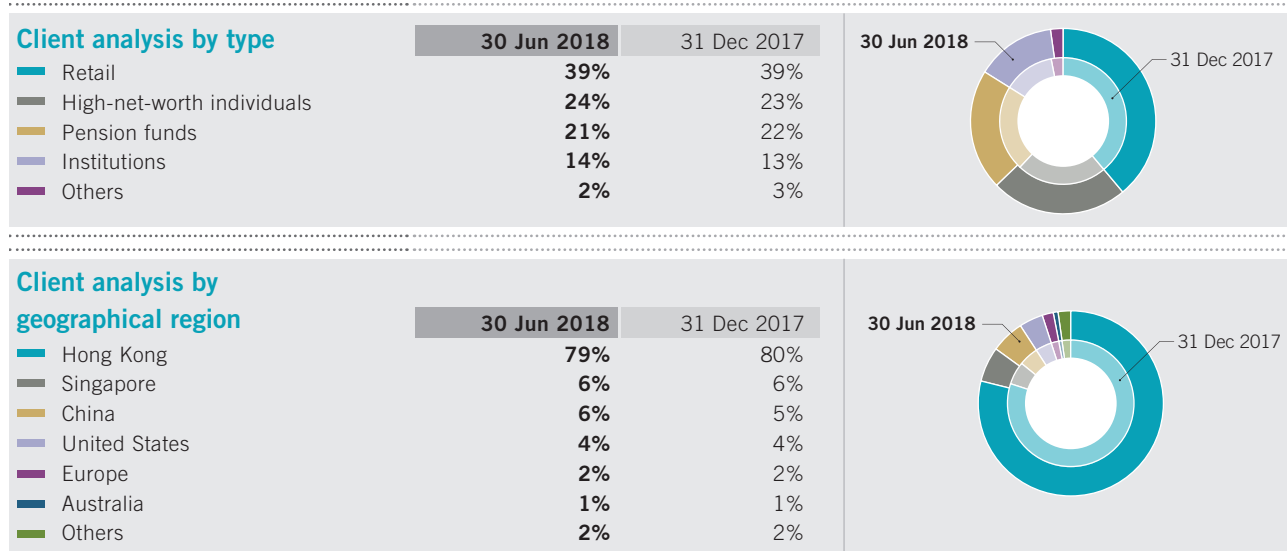
AUM by category

The charts below show breakdowns of the Group's AUM as at 30 June 2018 using two different classifiers: brand and strategy. During the period, Own Branded Funds (73%) remained the major contributor to the Group's AUM. By strategy, Absolute Return Long-biased Funds (63%) continued to represent the largest share of the Group's AUM, followed by Fixed Income Funds (35%), where the majority of AUM was contributed by the Value Partners Greater China High Yield Income Fund. The share of Group AUM accounted for by the Value Partners Greater China High Yield Income Fund had continuously increased during the period.



Client base

During the period, 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 61% of total AUM (31 December 2017: 61%). Meanwhile, retail clients contributed 39% of total AUM (31 December 2017: 39%). In terms of geographical location, Hong Kong clients accounted for 79% of the Group's AUM (31 December 2017: 80%), Singapore clients contributed 6% (31 December 2017: 6%), China clients contributed 6% (31 December 2017: 5%), while the United States and Europe took up a combined 6% (31 December 2017: 6%).



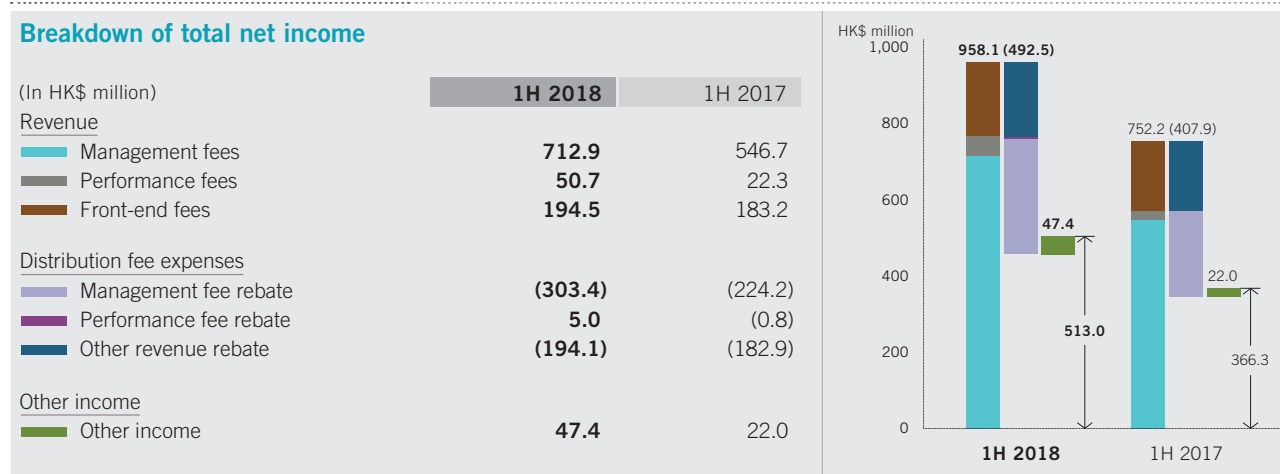
Financial review

Summary of results

Key financial highlights for the reporting period are as follows:

(In HK\$ million)	1H 2018	1H 2017	% Change
Total revenue	958.1	752.2	+27.4%
Gross management fees	712.9	546.7	+30.4%
Gross performance fees	50.7	22.3	+127.4%
Operating profit (before other gains/losses)	246.1	140.3	+75.4%
Profit attributable to owners of the Company	194.3	219.5	-11.5%
Basic earnings per share (HK cents)	10.5	11.8	-11.0%
Diluted earnings per share (HK cents)	10.5	11.8	-11.0%
Interim dividend per share	Nil	Nil	

Revenue and fee margin



The Group's profit attributable to owners of the Company amounted to HK\$194.3 million for the six months ended 30 June 2018 (1H 2017: HK\$219.5 million). Total revenue increased by 27.4% to HK\$958.1 million (1H 2017: HK\$752.3 million). Gross management fees, the major contributor to our revenue during the period, rose 30.4% to HK\$712.9 million (1H 2017: HK\$546.7 million) on a 21.9% increase in the Group's average AUM to US\$17,737 million (1H 2017: US\$14,554 million).

During the period, our annualized gross management fee margin increased to 104 basis points (1H 2017: 98 basis points) on the back of strong net flows into the Value Partners Greater China High Yield Income Fund, which has relatively higher margins. Our annualized net management fee margin widened to 60 basis points (1H 2017: 57 basis points), while our management fee rebates for distribution channels increased to HK\$303.4 million (1H 2017: HK\$224.2 million).

Financial review

Gross performance fees, another source of revenue, increased to HK\$50.7 million (1H 2017: HK\$22.3 million). Performance fees are generated when funds, at their performance fee crystallization dates, report returns exceeding their high watermarks for the respective period up to the crystallization date.

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\$47.4 million (1H 2017: HK\$22.0 million). Interest income increased to HK\$33.4 million (1H 2017: HK\$13.5 million), while dividend income increased to HK\$13.9 million (1H 2017: HK\$8.1 million).

Other gains and losses

(In HK\$ million)	1H 2018	1H 2017
Net (losses)/gains on investments	(66.6)	96.0
Net gains on investments held-for-sale	–	3.1
Others	11.2	10.4
	(55.4)	109.5

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 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.

Investment in a joint venture

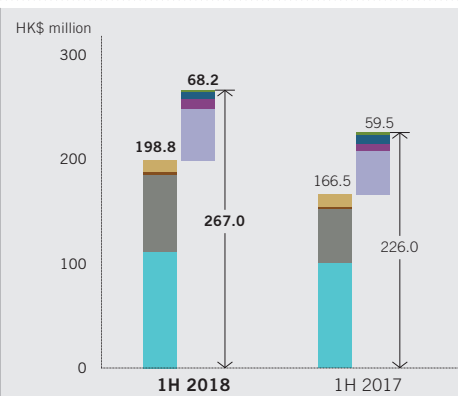
Investment in a joint venture represents the Group's 50% equity interest in Value Investing Group Company Limited, which has the trust beneficiary interests in two logistics centers in Japan. For the six months end 30 June 2018, the Group's share of gain of the joint venture amounted to HK\$50.0 million (1H 2017: Nil), mainly comprised of revaluation gain of properties of HK\$31.3 million (1H 2017: Nil) and rental income of HK\$14.4 million (1H 2017: Nil).

Cost management

Breakdown of total expenses

(In HK\$ million)

	1H 2018	1H 2017
Compensation and benefit expenses		
Fixed salaries and staff benefits	112.4	101.0
Management bonus	72.8	51.1
Staff rebates	2.4	2.1
Share-based compensation expenses	11.2	12.3
Other expenses		
Other fixed operating costs	49.5	42.0
Sales and marketing	10.8	6.4
Depreciation	6.2	8.6
Non-recurring expenses	1.7	2.5



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, which is a relatively stable source of income. 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 the current period, the Group reported a fixed cost coverage ratio of 2.6 times (1H 2017: 2.3 times).

Compensation and benefit expenses

During the period, fixed salaries and staff benefits rose by HK\$11.4 million to HK\$112.4 million (1H 2017: HK\$101.0 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 – a management bonus of HK\$72.8 million was accrued for the first half of 2018 (1H 2017: HK\$51.1 million). The profit pool is calculated by deducting certain adjustments from net profit before management bonus and taxation. This discretionary bonus is maintained to promote 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 period amounted to HK\$2.4 million (1H 2017: HK\$2.1 million).

During the period, the Group recorded expenses of HK\$11.2 million (1H 2017: HK\$12.3 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\$49.5 million for the period (1H 2017: HK\$42.0 million), while sales and marketing expenses increased to HK\$10.8 million (1H 2017: HK\$6.4 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.

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. At the end of the first half of 2018, the Group's balance sheet and cash flow positions remained strong, with a net cash balance of HK\$1,686.1 million. Net cash inflows from operating activities amounted to HK\$2,154.3 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 4.0 times.

Capital structure

As at 30 June 2018, the Group's shareholders' equity and total number of shares issued were HK\$3,934.9 million and 1.86 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. *Performance of Value Partners Greater China High Yield Income Fund (Class P Acc USD) as at 30 June 2018, 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 30 June): -2.9%*
3. *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.*
4. *Performance of Value Partners Classic Fund (A Units) as at 30 June 2018, 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 30 June): -4.4%*
5. *Performance of Value Partners High-Dividend Stocks Fund (Class A1) as at 30 June 2018, 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 30 June): -4.2%*

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

Independent review report

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION TO THE BOARD OF DIRECTORS OF VALUE PARTNERS GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 14 to 39, which comprises the condensed consolidated balance sheet of Value Partners Group Limited (the “Company”) and its subsidiaries (together, the “Group”) as at 30 June 2018 and the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information of the Group is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 14 August 2018

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2018

	Note	Six months ended 30 June	
		2018 HK\$'000 Unaudited	2017 HK\$'000 Unaudited
Income			
Fee income and other revenue	6	958,100	752,242
Distribution fee expenses		(492,451)	(407,861)
Net fee income		465,649	344,381
Other income	7	47,357	21,961
Total net income		513,006	366,342
Expenses			
Share-based compensation	20	(11,194)	(12,337)
Other compensation and benefit expenses		(187,630)	(154,151)
Operating lease rentals		(18,560)	(14,044)
Other expenses		(49,560)	(45,501)
Total expenses		(266,944)	(226,033)
Operating profit (before other gains/losses)		246,062	140,309
Net (losses)/gains on investments		(66,638)	96,044
Net gains on investments held-for-sale		–	3,082
Others		11,250	10,419
Other (losses)/gains – net	8	(55,388)	109,545
Operating profit (after other gains/losses)		190,674	249,854
Share of gain of a joint venture	13	49,969	–
Profit before tax		240,643	249,854
Tax expense	9	(46,382)	(24,645)
Profit for the period from continuing operations		194,261	225,209
Discontinued operations			
Loss for the period from discontinued operations	16	–	(6,834)
Profit for the period		194,261	218,375
Profit/(loss) for the period attributable to			
Owners of the Company			
– Continuing operations		194,261	226,435
– Discontinued operations		–	(6,934)
		194,261	219,501
Non-controlling interests			
– Continuing operations		–	(1,226)
– Discontinued operations		–	100
		–	(1,126)
Profit for the period		194,261	218,375

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2018

	Six months ended 30 June	
	2018 HK\$'000 Unaudited	2017 HK\$'000 Unaudited
Other comprehensive (loss)/income for the period		
<i>– Items that may be subsequently reclassified to profit or loss</i>		
Fair value losses on financial assets at fair value through other comprehensive income	(2,213)	–
Fair value gains on available-for-sale financial assets	–	6,298
Foreign exchange translation	1,981	10,924
Other comprehensive (loss)/income for the period	(232)	17,222
Total comprehensive income for the period	194,029	235,597
Total comprehensive income/(loss) for the period attributable to		
Owners of the Company		
– Continuing operations	194,029	239,294
– Discontinued operations	–	(4,172)
	194,029	235,122
Non-controlling interests		
– Continuing operations	–	58
– Discontinued operations	–	417
	–	475
Total comprehensive income for the period	194,029	235,597
Earnings per share from continuing and discontinued operations attributable to owners of the Company (HK cents per share)		
Basic earnings per share		
– Continuing operations	10.5	12.2
– Discontinued operations	–	(0.4)
	10.5	11.8
Diluted earnings per share		
– Continuing operations	10.5	12.2
– Discontinued operations	–	(0.4)
	10.5	11.8

The notes on pages 19 to 39 are an integral part of this condensed consolidated interim financial information.

Condensed Consolidated Balance Sheet

As at 30 June 2018

	Note	30 June 2018 HK\$'000 Unaudited	31 December 2017 HK\$'000 Audited
Non-current assets			
Property, plant and equipment	11	28,597	7,710
Intangible assets	12	15,736	17,529
Investment in a joint venture	13	237,143	190,867
Deferred tax assets		726	122
Investments	15	1,586,818	1,511,107
Other assets	19	44,059	44,471
		1,913,079	1,771,806
Current assets			
Investments	15	784,327	127,474
Fees receivable	17	162,048	2,611,076
Amounts receivable on sale of investments		16,603	41,974
Prepayments and other receivables		55,294	84,676
Deposits with brokers		5,159	36,331
Cash and cash equivalents	18	1,686,124	2,204,704
		2,709,555	5,106,235
Current liabilities			
Investments	15	17,926	11,800
Accrued bonus		97,261	662,926
Distribution fee expenses payable	21	153,887	154,955
Amounts payable on purchase of investments		1,899	15,435
Other payables and accrued expenses		55,918	49,005
Other financial liabilities	22	3,888	3,991
Current tax liabilities		344,113	320,614
		674,892	1,218,726
		2,034,663	3,887,509
Net current assets			
Non-current liabilities			
Accrued bonus		12,845	19,292
		3,934,897	5,640,023
Net assets			
Equity			
Equity attributable to owners of the Company			
Issued equity	20	1,410,107	1,391,473
Other reserves		224,298	255,182
Retained earnings		2,300,492	3,993,368
		3,934,897	5,640,023
Total equity			

The notes on pages 19 to 39 are an integral part of this condensed consolidated interim financial information.

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2018

	Note	Attributable to owners of the Company			Total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
		Issued equity HK\$'000	Other reserves HK\$'000	Retained earnings HK\$'000			
Unaudited							
As at 1 January 2017		1,391,473	148,515	2,157,728	3,697,716	62,853	3,760,569
Profit/(loss) for the period		-	-	219,501	219,501	(1,126)	218,375
Other comprehensive income							
Fair value gains on available-for-sale financial assets		-	6,298	-	6,298	-	6,298
Foreign exchange translation		-	9,323	-	9,323	1,601	10,924
Total comprehensive income		-	15,621	219,501	235,122	475	235,597
Transactions with owners							
Share-based compensation	20	-	12,337	-	12,337	-	12,337
Transfer of share-based compensation reserve upon forfeiture of share options		-	(10,142)	10,142	-	-	-
Dividends to owners of the Company		-	-	(222,206)	(222,206)	-	(222,206)
Total transactions with owners		-	2,195	(212,064)	(209,869)	-	(209,869)
As at 30 June 2017		1,391,473	166,331	2,165,165	3,722,969	63,328	3,786,297
Unaudited							
As at 1 January 2018		1,391,473	255,182	3,993,368	5,640,023	-	5,640,023
Adoption of new accounting standards	3	-	(33,455)	34,433	978	-	978
As at 1 January 2018 (Restated)		1,391,473	221,727	4,027,801	5,641,001	-	5,641,001
Profit for the period		-	-	194,261	194,261	-	194,261
Other comprehensive income/(loss)							
Fair value losses on financial assets at fair value through other comprehensive income		-	(2,213)	-	(2,213)	-	(2,213)
Foreign exchange translation		-	1,981	-	1,981	-	1,981
Total comprehensive income/(loss)		-	(232)	194,261	194,029	-	194,029
Transactions with owners							
Exercise of share options		18,634	-	-	18,634	-	18,634
Share-based compensation	20	-	11,194	-	11,194	-	11,194
Transfer of share-based compensation reserve upon exercise or forfeiture of share options		-	(8,391)	8,391	-	-	-
Dividends to owners of the Company	10	-	-	(1,929,961)	(1,929,961)	-	(1,929,961)
Total transactions with owners		18,634	2,803	(1,921,570)	(1,900,133)	-	(1,900,133)
As at 30 June 2018		1,410,107	224,298	2,300,492	3,934,897	-	3,934,897

The notes on pages 19 to 39 are an integral part of this condensed consolidated interim financial information.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2018

	Six months ended 30 June	
	2018 HK\$'000 Unaudited	2017 HK\$'000 Unaudited
Cash flows from operating activities		
Net cash generated from continuing operations	2,150,522	259,371
Net cash used in discontinued operations	–	(163,795)
Interest received	27,228	12,948
Tax paid	(23,487)	(5,056)
Net cash generated from operating activities	2,154,263	103,468
Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets	(9,155)	(3,143)
Purchase of investments	(1,029,359)	(297,023)
Disposal of investments	261,826	346,560
Dividends received from investments	7,482	4,719
Interest received from investments	6,160	–
Net cash (used in)/generated from investing activities	(763,046)	51,113
Cash flows from financing activities		
Dividends paid	(1,929,961)	(222,206)
Proceeds from share issued upon exercise of share options	18,634	–
Net cash used in financing activities	(1,911,327)	(222,206)
Net decrease in cash and cash equivalents	(520,110)	(67,625)
Net foreign exchange gains on cash and cash equivalents	1,530	6,498
Cash and cash equivalents at beginning of the period	2,204,704	2,629,131
Cash and cash equivalents at end of the period	1,686,124	2,568,004

The notes on pages 19 to 39 are an integral part of this condensed consolidated interim financial information.

Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30 June 2018

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 43rd Floor, The Center, 99 Queen’s Road Central, Hong Kong, respectively.

The Company acts as an investment holding company. 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”).

This condensed consolidated interim financial information is presented in thousands of Hong Kong dollars (HK\$’000), unless otherwise stated. This condensed consolidated interim financial information has been approved for issue by the Board of Directors on 14 August 2018.

This condensed consolidated interim financial information has been reviewed, not audited.

2 Basis of preparation

This condensed consolidated interim financial information for the six months ended 30 June 2018 has been prepared in accordance with HKAS 34 “Interim Financial Reporting”. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2017, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants.

3 Accounting policies

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2017. Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

3.1 New standards adopted by the Group

The Group has adopted the following new standards, amendments and interpretations which are effective for the Group’s financial year beginning 1 January 2018.

- HKFRS 9 “Financial instruments”
- HKFRS 15 “Revenue from contracts with customers”

Except for those disclosed below, the adoption of these new standards has no significant impact on the Group’s results and financial position nor any substantial changes in Group’s accounting policies.

Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30 June 2018

3 Accounting policies (continued)**3.1 New standards adopted by the Group (continued)**

The adoption has resulted in the restatement of the following line items. The restatements are explained in detail below.

Consolidated balance sheet (extract)	31 December 2017 As originally presented HK\$'000	HKFRS 9 HK\$'000	HKFRS 15 HK\$'000	1 January 2018 Restated HK\$'000
Non-current assets				
Investments	1,511,107	–	–	1,511,107
– Financial assets at fair value through profit or loss	1,404,921	<i>106,186</i>	–	1,511,107
– Available-for-sale financial assets	106,186	<i>(106,186)</i>	–	–
Current liabilities				
Other payables and accrued expenses	49,005	–	(978)	48,027
– Deferred front-end fees and rebates liabilities	978	–	(978)	–
Equity				
Equity attributable to owners of the Company				
Other reserves	255,182	(33,455)	–	221,727
Retained earnings	3,993,368	33,455	978	4,027,801

(a) HKFRS 9 “Financial Instruments”

HKFRS 9 replaces the provision of HKAS 39 that relate to the recognition, classification and measurement of financial assets and liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

(i) Impact of adoption

The adoption of HKFRS 9 from 1 January 2018 resulted in changes in accounting policies for certain financial instruments held by the Group. In accordance with the transition provisions in HKFRS 9, comparative figures of the interim financial information have not been restated.

On 1 January 2018 (the date of initial application of HKFRS 9), the Group’s management has assessed which business models applied to the financial assets held by the Group and has classified its financial instruments into the appropriate HKFRS 9 categories. The major effects resulting from this reclassification are as follows:

Reclassification from available-for-sale to fair value through profit or loss (“FVPL”)

Equity investments of HK\$106,186,000 were reclassified from available-for-sale to FVPL as at 1 January 2018. The Group elected to account for these equity investments at FVPL. Related fair value gains of HK\$33,455,000 were transferred from the available-for-sale financial assets reserve to retained earnings on 1 January 2018. For the six months ended 30 June 2018, net fair value losses of HK\$7,386,000 relating to these investments were recognized in profit or loss.

Impairment of financial assets

The Group was required to revise its impairment methodology under HKFRS 9’s new expected credit loss model for its financial assets. The change in impairment requirements has no significant impact on the Group’s results and financial position.

Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30 June 2018

3 Accounting policies (continued)

3.1 New standards adopted by the Group (continued)

(a) HKFRS 9 “Financial Instruments” (continued)

(ii) Accounting policies applied from 1 January 2018

Investments and other financial assets

Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories: those to be measured subsequently at FVPL, at fair value through other comprehensive income (“FVOCI”) and at amortized cost. The classification depends on the Group’s business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income (“OCI”). For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at FVOCI. The Group reclassifies debt investments when and only when its business model for managing those assets changes.

Measurement

At initial recognition, the Group measures a financial asset at its fair value. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Equity instruments

- The Group subsequently measures all equity investments at FVPL.
- Changes in the fair value of the financial assets at FVPL are recognized in other gains/losses in the statement of profit or loss.
- Dividend and interest income from such investments continue to be recognized in profit or loss as other income when the Group’s right to receive payments is established.

Debt instruments

- Subsequent measurement of debt instruments depends on the Group’s business model for managing the assets and the cash flow characteristics of the assets. Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets’ cash flows represent solely payments of principal and interest, are measured at FVOCI. The Group classifies all its debt instruments as FVOCI.
- Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognized in profit or loss.
- When the debt instrument at FVOCI is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in other gains/losses.
- Interest income from these financial assets is included in other income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/losses and impairment expenses are presented as separate line item in the statement of profit or loss, if any.

Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30 June 2018

3 Accounting policies (continued)

3.1 New standards adopted by the Group (continued)

(a) HKFRS 9 “Financial Instruments” (continued)

(ii) *Accounting policies applied from 1 January 2018 (continued)*

Impairment

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at FVOCI. The impairment methodology applied depends on whether there has a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

Derivatives

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 by the Group as non-hedging derivative financial 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 statement of profit or loss.

(b) HKFRS 15 “Revenue from contracts with customers”

HKFRS 15 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. HKFRS 15 replaces HKAS 18 “Revenue” and HKAS 11 “Construction contracts” and related interpretations.

(i) *Impact of adoption*

The adoption of HKFRS 15 from 1 January 2018 resulted in changes in accounting policies and adjustments to the revenues recognized in the financial statements. The Group elected not to restate comparative figures of the interim financial information in accordance with the transition provisions in HKFRS 15. The major effects resulting from the changes in accounting policies are as follows:

Accounting for front-end fees and rebates

In the previous reporting periods, the front-end fees and rebates from the fund distribution activities were recognized on a straight-line basis over the investors’ estimated holding periods in the investment funds. Any unrecognized amounts were treated as deferred income and rebates.

Under HKFRS 15, 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 and service. In consideration of the fund distribution activities being a separate performance obligation from the asset management and the obligation being satisfied at a point in time upon the investors’ subscription, front-end fees and rebates relating to the distribution services are recognized at a point in time when the services are performed and the amount is known.

Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30 June 2018

3 Accounting policies (continued)

3.1 New standards adopted by the Group (continued)

(b) HKFRS 15 “Revenue from contracts with customers” (continued)

(i) *Impact of adoption (continued)*

Accounting for front-end fees and rebates (continued)

On 1 January 2018 (the date of initial application of HKFRS 15), deferred front-end fees and rebates liabilities of HK\$978,000 as previously reported under “other payables and accrued expenses” on the condensed consolidated balance sheet was transferred to retained earnings. For the six months ended 30 June 2018, front-end fees and rebates were increased by HK\$9,975,000 and HK\$9,972,000 respectively.

(ii) *Accounting policies applied from 1 January 2018*

Fee income 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 and it is determined that it will not result in significant reversal in a subsequent period, taking into consideration the relevant basis of calculation for the investment funds and managed accounts.

Fee income from fund distribution services

Front-end fees and rebates relating to the distribution services are recognized when the services are performed and the amount is known.

Interest and dividend income

Interest income is recognized on a time-proportion basis using the effective interest method. Dividend income is recognized when the right to receive payment is established.

3.2 New standards issued but are not effective for the financial year beginning 1 January 2018 and have not been early adopted

- 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 Condensed Consolidated Interim Financial Information

For the six months ended 30 June 2018

4 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	
	30 June 2018 HK\$'000 Unaudited	31 December 2017 HK\$'000 Audited	30 June 2018 HK\$'000 Unaudited	31 December 2017 HK\$'000 Audited	30 June 2018 HK\$'000 Unaudited	31 December 2017 HK\$'000 Audited	30 June 2018 HK\$'000 Unaudited	31 December 2017 HK\$'000 Audited
Investments (Note 15)								
Listed securities	331,749	329,103	-	-	-	-	331,749	329,103
Quoted debt securities	-	-	590,595	-	-	-	590,595	-
Unlisted securities								
Investment funds – Cayman Islands	-	-	381,801	401,300	6,542	5,055	388,343	406,355
Loan note – Australia	-	-	-	-	398,129	413,208	398,129	413,208
Others	-	-	605,750	425,434	-	-	605,750	425,434
Derivative financial instruments	(418)	(475)	780	(149)	38,291	53,305	38,653	52,681

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, the instrument is included in level 2. These investments 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, discounted cash flow analysis or reference to other instruments that are substantially the same, for the remaining financial instruments.

Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30 June 2018

4 Fair value estimation (continued)

The following table presents the movement in level 3 instruments.

	Period ended 30 June 2018				Year ended 31 December 2017			
	Unlisted securities – investment funds	Unlisted securities – loan note	Derivative financial instruments	Total	Unlisted securities – investment funds	Unlisted securities – loan note	Derivative financial instruments	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	Unaudited	Unaudited	Unaudited	Unaudited	Audited	Audited	Audited	Audited
As at 1 January	5,055	413,208	53,305	471,568	4,341	–	33,655	37,996
Additions	557	–	391	948	621	405,432	781	406,834
Gains/(losses) recognized in profit or loss	930	(15,079)	(15,405)	(29,554)	–	7,776	18,869	26,645
Gains recognized in other comprehensive income	–	–	–	–	93	–	–	93
As at 30 June 2018/31 December 2017	6,542	398,129	38,291	442,962	5,055	413,208	53,305	471,568
Total gains/(losses) for the period/year included in the condensed consolidated statement of comprehensive income for level 3 instruments held at the end of the period/year	930	(15,079)	(15,405)	(29,554)	93	7,776	18,869	26,738
Change in unrealized gains or losses for level 3 instruments held at period/year end and included in profit or loss	930	(15,079)	(15,405)	(29,554)	–	7,776	18,869	26,645

The level 3 instruments include an investment fund, a derivative financial instrument and a loan note with a related call option (Note 15).

As at 30 June 2018 and 31 December 2017, the investment fund was stated with reference to the net asset value provided by the respective administrator 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 judgment and discretion to determine the fair value of the investment fund.

As at 30 June 2018 and 31 December 2017, 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.

For the investment fund and derivative financial instrument, no significant quantitative unobservable inputs are used to determine their fair value. No quantitative analysis would be presented.

As at 30 June 2018, the loan note with a related call option was valued using discounted cash flow analysis with expected market yield of 4.65% (the discount rate) as the unobservable input. Sensitivity analysis is not presented as a reasonable possible shift in the discount rate would not result in significant change in the fair value of the loan note with a related call option. As at 31 December 2017, the loan note was valued with reference to its subscription price on 15 December 2017. No significant quantitative unobservable inputs are used to determine their fair value and no quantitative analysis would be presented.

Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30 June 2018

4 Fair value estimation (continued)

The Group uses its judgement to select appropriate methods and make assumptions based on market conditions existing at the end of each reporting period.

There were no transfers between levels of the fair value measurement hierarchy for the period ended 30 June 2018 (2017: 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 respective fair values.

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 considers the business from a product perspective.

The Group has two reportable segments – asset management business and small loan business as at 30 June 2017. 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 the provision of investment management services to investment funds and managed accounts.

The Group had a small loan business in Chengdu. Major income from this small loan business included interest income and administrative fee income. The Group sold its entire interest in small loan business in 2017 and classified it as discontinued operations. Refer to Note 16.1 for details.

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

Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30 June 2018

5 Segment information (continued)**Profit or loss**

The revenue and profit/(loss) before tax reported to the Board of Directors is measured in a manner consistent with that in the condensed consolidated interim financial information. An analysis of the Group's reportable segment profit/(loss) before tax for the period by segment is as follows:

	Six months ended 30 June 2018			Six months ended 30 June 2017		
	Asset management business HK\$'000 Unaudited	Small loan business (discontinued operations) HK\$'000 Unaudited	Total HK\$'000 Unaudited	Asset management business HK\$'000 Unaudited	Small loan business (discontinued operations) HK\$'000 Unaudited	Total HK\$'000 Unaudited
Income from external customers	958,100	–	958,100	752,242	1,537	753,779
Distribution fee expenses	(492,451)	–	(492,451)	(407,861)	–	(407,861)
Net fee income	465,649	–	465,649	344,381	1,537	345,918
Other income	47,357	–	47,357	21,961	1,683	23,644
Total net income	513,006	–	513,006	366,342	3,220	369,562
Operating expenses	(266,944)	–	(266,944)	(226,033)	(1,956)	(227,989)
Operating profit (before other gains/losses)	246,062	–	246,062	140,309	1,264	141,573
Other gains/(losses) – net	(55,388)	–	(55,388)	109,545	(8,075)	101,470
Reportable segment profit/(loss) before tax	190,674	–	190,674	249,854	(6,811)	243,043

Assets and liabilities

An analysis of the Group's reportable segment total assets and total liabilities at the reporting date by segment is as follows:

	Assets		Liabilities	
	30 June 2018 HK\$'000 Unaudited	31 December 2017 HK\$'000 Audited	30 June 2018 HK\$'000 Unaudited	31 December 2017 HK\$'000 Audited
Asset management business	4,576,232	6,831,639	(679,781)	(1,228,223)
Small loan business (discontinued operations)	46,402	46,402	(7,956)	(9,795)
Total assets/(liabilities)	4,622,634	6,878,041	(687,737)	(1,238,018)

Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30 June 2018

6 Revenue

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

	Six months ended 30 June	
	2018 HK\$'000 Unaudited	2017 HK\$'000 Unaudited
Management fees	712,931	546,666
Performance fees	50,684	22,291
Front-end fees	194,485	183,285
Total fee income	958,100	752,242

7 Other income

	Six months ended 30 June	
	2018 HK\$'000 Unaudited	2017 HK\$'000 Unaudited
Interest income from cash and cash equivalents	17,040	13,487
Interest income from financial assets at fair value through profit or loss	11,895	–
Interest income from financial assets at fair value through other comprehensive income	4,423	–
Dividend income from financial assets at fair value through profit or loss	13,853	2,034
Dividend income from available-for-sale financial assets	–	6,045
Others	146	395
Total other income	47,357	21,961

8 Other (losses)/gains – net

	Six months ended 30 June	
	2018 HK\$'000 Unaudited	2017 HK\$'000 Unaudited
Net (losses)/gains on investments		
Gains on financial assets at fair value through profit or loss	46,080	111,159
Losses on financial assets at fair value through profit or loss	(112,718)	(15,115)
Net gains on investments held-for-sale		
Gains on investments held-for-sale	–	3,082
Others		
Net foreign exchange gains	11,250	10,385
Gains on disposal of property, plant and equipment	–	34
Total other (losses)/gains – net	(55,388)	109,545

Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30 June 2018

9 Tax expense

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

Hong Kong profits tax has been provided on the estimated assessable profit for the six months ended 30 June 2018 at the rate of 16.5% (2017: 16.5%). Tax outside Hong Kong is calculated at the rates applicable in the relevant jurisdictions.

	Six months ended 30 June	
	2018 HK\$'000 Unaudited	2017 HK\$'000 Unaudited
Current tax		
Hong Kong profits tax	30,551	24,151
Overseas tax	12,542	1,601
Adjustments in respect of prior years	3,893	(145)
Total current tax	46,986	25,607
Deferred tax		
Origination and reversal of temporary differences	(604)	(962)
Total tax expense	46,382	24,645

10 Dividends

Special dividend of HK\$1,595,915,000 and final dividend of HK\$334,046,000 declared by the Company are related to the year ended 31 December 2017 and were paid on 28 February 2018 and 23 May 2018 respectively. No interim dividend was proposed by the Board of Directors for the six months ended 30 June 2018 (2017: Nil).

11 Property, plant and equipment

	30 June	31 December
	2018 HK\$'000 Unaudited	2017 HK\$'000 Audited
Opening net book amount	7,710	10,603
Additions	24,926	8,735
Disposals	–	(27,063)
Disposal of subsidiaries	–	(3,401)
Depreciation	(4,094)	(10,529)
Write back of depreciation on disposals	–	27,063
Write back of depreciation on disposal of subsidiaries	–	2,153
Exchange differences	55	149
Closing net book amount	28,597	7,710

Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30 June 2018

12 Intangible assets

	30 June 2018 HK\$'000 Unaudited	31 December 2017 HK\$'000 Audited
Opening net book amount	17,529	14,047
Additions	284	10,735
Disposals	–	(5,567)
Disposal of subsidiaries	–	(2,607)
Amortization	(2,076)	(4,479)
Write back of amortization on disposals	–	4,367
Write back of amortization on disposal of subsidiaries	–	2,141
Impairment	–	(1,244)
Exchange differences	(1)	136
Closing net book amount	15,736	17,529

13 Investment in a joint venture

As at 30 June 2018 and 31 December 2017, “investment in a joint venture” represents the Group’s 50% equity interest in Value Investing Group Company Limited (“Value Investing”), which has the trust beneficiary interests in two logistics centers in Japan. For the six months ended 30 June 2018, the Group’s share of gain of the joint venture amounted to HK\$49,969,000 (2017: Nil), mainly comprised of revaluation gain of properties of HK\$31,255,000 (2017: Nil) and rental income of HK\$14,433,000 (2017: Nil).

	30 June 2018 HK\$'000 Unaudited	31 December 2017 HK\$'000 Audited
Beginning of the period/year	190,867	–
Deemed acquisition	–	190,867
Share of gain	49,969	–
Return of capital	(3,693)	–
End of the period/year	237,143	190,867

Details of the joint venture indirectly held by the Group are as follows:

Name	Place of incorporation	Principal activities	Interest held	
			30 June 2018	31 December 2017
Value Investing Group Company Limited	Hong Kong	Investment holding	50%	50%

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For the six months ended 30 June 2018

14 Investment in associates**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	
		30 June 2018	31 December 2017
Value Partners Fixed Income SPC – Value Partners Credit Opportunities Fund SP	Cayman Islands	24%	25%
Value Partners Ireland Fund Plc – Value Partners Global Emerging Market Bond Fund ^(a)	Ireland	20%	–
Value Partners Ireland Fund Plc – Value Partners Health Care Fund ^(b)	Ireland	–	22%

	Net asset value		Profit for the period/year and total comprehensive income	
	30 June 2018 HK\$'000	31 December 2017 HK\$'000	30 June 2018 HK\$'000	31 December 2017 HK\$'000
Value Partners Fixed Income SPC – Value Partners Credit Opportunities Fund SP	887,133	796,727	48,099	13,941
Value Partners Ireland Fund Plc – Value Partners Global Emerging Market Bond Fund ^(a)	393,267	–	(15,593)	–
Value Partners Ireland Fund Plc – Value Partners Health Care Fund ^(b)	–	209,207	–	38,143

(a) As at 30 June 2018, Value Partners Ireland Fund Plc – Value Partners Global Emerging Market Bond Fund was recognized as “investment in associates”.

(b) As at 30 June 2018, Value Partners Ireland Fund Plc – Value Partners Health Care Fund was derecognized from “investment in associates”.

The fair value of the Group’s interest in such investment funds are summarized in Note 24.3.

Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30 June 2018

15 Investments

Investments include the following:

	Financial assets at fair value through profit or loss		Financial assets at fair value through other comprehensive income		Available-for-sale financial assets ^(a)		Total	
	30 June 2018 HK\$'000 Unaudited	31 December 2017 HK\$'000 Audited	30 June 2018 HK\$'000 Unaudited	31 December 2017 HK\$'000 Audited	30 June 2018 HK\$'000 Unaudited	31 December 2017 HK\$'000 Audited	30 June 2018 HK\$'000 Unaudited	31 December 2017 HK\$'000 Audited
Listed securities								
Equity securities – Long – China	6,722	2,745	-	-	-	-	6,722	2,745
Equity securities – Long – Hong Kong	120,845	118,552	-	-	-	-	120,845	118,552
Equity securities – Short – Hong Kong	(12,150)	(11,176)	-	-	-	-	(12,150)	(11,176)
Equity securities – Long – Singapore	-	2,299	-	-	-	-	-	2,299
Equity securities – Long – South Korea	1,695	3,162	-	-	-	-	1,695	3,162
Equity securities – Long – Taiwan	12,324	4,133	-	-	-	-	12,324	4,133
Equity securities – Long – United States	13,055	8,263	-	-	-	-	13,055	8,263
Equity securities – Short – United States	(5,338)	-	-	-	-	-	(5,338)	-
Investment funds – Hong Kong	194,596	201,125	-	-	-	-	194,596	201,125
Fair value of listed securities	331,749	329,103	-	-	-	-	331,749	329,103
Quoted debt securities								
Debt securities – Australia	-	-	15,269	-	-	-	15,269	-
Debt securities – China	-	-	450,119	-	-	-	450,119	-
Debt securities – Hong Kong	-	-	68,331	-	-	-	68,331	-
Debt securities – Singapore	-	-	10,647	-	-	-	10,647	-
Debt securities – South Korea	-	-	25,854	-	-	-	25,854	-
Debt securities – Thailand	-	-	20,375	-	-	-	20,375	-
Fair value of quoted debt securities	-	-	590,595	-	-	-	590,595	-
Unlisted securities								
Equity securities – Singapore	1,311	-	-	-	-	8,014	1,311	8,014
Investment funds – Australia	19,728	21,023	-	-	-	-	19,728	21,023
Investment funds – Cayman Islands	388,343	401,300	-	-	-	5,055	388,343	406,355
Investment funds – China	98,276	51,550	-	-	-	-	98,276	51,550
Investment funds – Hong Kong	238,933	44,995	-	-	-	-	238,933	44,995
Investment funds – Ireland	130,767	129,060	-	-	-	-	130,767	129,060
Investment funds – Luxemburg	-	-	-	-	-	51,889	-	51,889
Investment funds – United States	116,735	77,675	-	-	-	41,228	116,735	118,903
Loan note – Australia	398,129	413,208	-	-	-	-	398,129	413,208
Fair value of unlisted securities	1,392,222	1,138,811	-	-	-	106,186	1,392,222	1,244,997
Derivative financial instruments								
Equity swap – China	38,291	53,305	-	-	-	-	38,291	53,305
Equity swap – South Korea	173	(99)	-	-	-	-	173	(99)
Equity swap – Taiwan	607	(50)	-	-	-	-	607	(50)
Index futures – Hong Kong	(418)	(475)	-	-	-	-	(418)	(475)
Fair value of derivative financial instruments	38,653	52,681	-	-	-	-	38,653	52,681
Total investments	1,762,624	1,520,595	590,595	-	-	106,186	2,353,219	1,626,781
Representing:								
Non-current	1,586,818	1,404,921	-	-	-	106,186	1,586,818	1,511,107
Current	175,806	115,674	590,595	-	-	-	766,401	115,674
Total investments	1,762,624	1,520,595	590,595	-	-	106,186	2,353,219	1,626,781

(a) The adoption of HKFRS 9 “Financial instruments” on 1 January 2018 resulted in reclassification of available-for-sale financial assets to financial assets at fair value through profit or loss. Refer to Note 3.1(a) for details.

Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30 June 2018

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

As at 30 June 2018 and 31 December 2017, 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 condensed consolidated balance sheet.

	Place of incorporation	Effective interest held			
		30 June 2018		31 December 2017	
		Directly	Indirectly	Directly	Indirectly
Value Partners Asia Pacific Real Estate Limited Partnership	Cayman Islands	-	100%	-	100%
Value Partners Big Data Fund	Cayman Islands	-	96%	-	96%

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 30 June 2018 (31 December 2017: US\$21 million). The Real Estate Partnership focuses on the acquisition of stabilized income assets in the Asia Pacific. As at 30 June 2018 and 31 December 2017, the Real Estate Partnership held two investments as follows:

- 50% equity interest in Value Investing, a company incorporated in Hong Kong, which has the trust beneficial interests in two Japanese properties. Value Investing is presented as "investment in a joint venture" on the condensed consolidated balance sheet. Refer to Note 13 for details.
- A loan note with a related call option 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 comes with a call option that is exercisable (1) in the event of default by the Finance Trust; or (2) execution of any contract to sell, dispose, or transfer the Australian property or the property of the Finance Trust. The exercise of the related call option enables the Group to own interest (in the form of ordinary units) in the Finance Trust. The loan note is presented as "investments" on the condensed consolidated balance sheet.

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 30 June 2018 and 31 December 2017, except for the consolidated fund disclosed above, the Group determined that all of these investment funds are unconsolidated structured entities. Refer to Note 24.3 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 24.3) and fees receivable as shown in the condensed consolidated balance sheet. The size of the investment funds ranges from US\$4 million to US\$5.5 billion (31 December 2017: US\$6 million to US\$4.5 billion). During the period, other than seed capital, the Group did not provide other financial support to unconsolidated structured entities and had no intention of providing other support.

Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30 June 2018

16 Disposal of subsidiaries**16.1 Under discontinued operations**

During the period ended 30 June 2017, the Group entered into a sale and purchase agreement with a third party to sell its entire issue share capital of Brilliant Star Capital (Cayman) Limited, which indirectly holds 90% of Chengdu Vision Credit Limited (“Vision Credit”), the Group’s small loan business in Chengdu (collectively, the “BSC Group”). As at 30 June 2017, the carrying amount of the Group’s investment in Vision Credit was written down to its fair value less costs to sell of HK\$305 million (representing the Group’s 90% ownership), and an impairment loss of HK\$7.4 million was recognized. This disposal group’s results were presented in the condensed consolidated interim financial information as a discontinued operation. The transaction was completed in October 2017.

16.2 Under continuing operations

During the period ended 30 June 2017, the Group entered into another sale and purchase agreement with a third party to sell its 62.05% interest in Value Partners Concord Asset Management Co., Ltd., an investment management business in Taiwan, for a consideration of HK\$35 million (representing the Group’s 62.05% ownership). The transaction was completed in August 2017.

17 Fees receivable

The carrying amounts of fees receivable approximate their respective fair values 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 30 June 2018 (31 December 2017: 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:

	30 June 2018 HK\$’000 Unaudited	31 December 2017 HK\$’000 Audited
Fees receivable that were past due but not impaired		
1 – 30 days	1,226	715
31 – 60 days	–	396
61 – 90 days	4,941	246
Over 90 days	6	770
	6,173	2,127
Fees receivable that were within credit period	155,875	2,608,949
Total fees receivable	162,048	2,611,076

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 30 June 2018 (31 December 2017: Nil).

Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30 June 2018

18 Cash and cash equivalents

	30 June 2018 HK\$'000 Unaudited	31 December 2017 HK\$'000 Audited
Cash at banks and in hand	172,749	214,364
Short-term bank deposits	1,495,111	1,983,784
Deposits with brokers	18,264	6,556
Total cash and cash equivalents	1,686,124	2,204,704

19 Other assets

	30 June 2018 HK\$'000 Unaudited	31 December 2017 HK\$'000 Audited
Restricted bank balances	31,682	31,682
Other assets	12,377	12,789
Total other assets	44,059	44,471

In accordance with the sale and purchase agreement for the disposal of the BSC Group (Note 16), 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 the buyer, and to be released to the Group in the twenty-fifth month following the date of completion.

20 Issued equity

	Number of shares	Issued equity HK\$'000
Unaudited		
As at 1 January 2018	1,851,714,831	1,391,473
Shares issued upon exercise of share options	4,100,000	18,634
As at 30 June 2018	1,855,814,831	1,410,107
Audited		
As at 1 January 2017 and 31 December 2017	1,851,714,831	1,391,473

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 (2017: Nil) was granted under the share option scheme during the six months ended 30 June 2018.

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For the six months ended 30 June 2018

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

The total expense recognized in the condensed consolidated statement of comprehensive income for share options granted to directors and employees during the six months ended 30 Jun 2018 was HK\$11,194,000 (2017: HK\$12,337,000) which has no impact to the Group's cash flows.

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)
Unaudited		
As at 1 January 2017	13.63	135,600
Forfeited	13.60	(10,490)
Forfeited	14.09	(4,877)
As at 30 June 2017	13.61	120,233
Unaudited		
As at 1 January 2018	13.61	119,720
Exercised	3.94	(100)
Exercised	4.56	(4,000)
Forfeited	13.60	(1,010)
Forfeited	14.09	(190)
As at 30 June 2018	13.94	114,420

Out of the 114,420,000 (31 December 2017: 119,720,000) outstanding share options, 97,393,000 (31 December 2017: 93,170,000) options were exercisable as at 30 June 2018 with weighted average exercise price of HK\$14.00 (2017: HK\$13.62). 4,100,000 options (2017: Nil) were exercised during the six months ended 30 June 2018.

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

Expiry date	Exercise price (HK\$ per share)	Number of options ('000)	
		30 June 2018 Unaudited	30 June 2017 Unaudited
11 November 2021	13.60	25,540	26,930
16 December 2021	14.09	88,380	88,703
30 May 2022	3.94	500	600
6 December 2022	4.56	–	4,000

Notes to the Condensed Consolidated Interim Financial Information

For the six months ended 30 June 2018

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

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.

21 Distribution fee expenses payable

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

	30 June 2018 HK\$'000 Unaudited	31 December 2017 HK\$'000 Audited
0 – 30 days	153,335	154,144
31 – 60 days	114	61
61 – 90 days	100	76
Over 90 days	338	674
Total distribution fee expenses payable	153,887	154,955

22 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.

23 Commitments**23.1 Operating lease commitments**

The Group leases various offices and office equipment under non-cancellable operating lease agreements. The lease terms are between three months and five years. The majority of the 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:

	30 June 2018 HK\$'000 Unaudited	31 December 2017 HK\$'000 Audited
Not later than one year	38,764	42,923
Later than one year and not later than five years	55,050	60,545
Total operating lease commitments	93,814	103,468

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For the six months ended 30 June 2018

23 Commitments (continued)**23.2 Capital commitments**

As at 30 June 2018, the Group has unfunded capital commitments in a private equity fund amounted to US\$224,000 (equivalent to HK\$1,758,000) (31 December 2017: US\$295,000 (equivalent to HK\$2,307,000)). As at the end of the period, the capital commitment contracted to purchase licensed software and hardware but not yet incurred amounted to HK\$3,884,000 (31 December 2017: HK\$1,256,000).

24 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 condensed consolidated interim financial information, 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.

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

	Six months ended 30 June	
	2018 HK\$'000 Unaudited	2017 HK\$'000 Unaudited
Consultancy fee to a close family member of key management personnel	145	145

24.2 Key management compensation

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

	Six months ended 30 June	
	2018 HK\$'000 Unaudited	2017 HK\$'000 Unaudited
Management bonus, salaries and other short-term employee benefits	9,862	9,427
Share-based compensation	3,594	8,624
Pension costs	36	36
Total key management compensation	13,492	18,087

24.3 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.

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24 Related-party transactions (continued)**24.3 Investments in investment funds which are managed/advised by the Group (continued)**

	Fair value	
	30 June 2018 HK\$'000 Unaudited	31 December 2017 HK\$'000 Audited
Consolidated structured entities		
Value Partners Big Data Fund (Note 15)	92,033	94,309
Value Partners Asia Pacific Real Estate Limited Partnership (Note 15)	666,616	620,577
Unconsolidated structured entities		
AMG Managers Value Partners Asia Dividend Fund	79,175	77,311
Premium Asia Income Fund	19,728	21,023
Value China ETF	5,885	6,003
Value ETFs Trust – Value Japan ETF	10,276	10,864
Value ETFs Trust – Value Korea ETF	9,195	10,395
Value ETFs Trust – Value Taiwan ETF	12,900	12,150
Value Gold ETF	156,340	161,713
Value Partners Asia Fund, LLC	374	364
Value Partners Classic Fund ^(a)	1,081	330
Value Partners Fixed Income SPC – Value Partners Credit Opportunities Fund SP ^(b) (Note 14)	208,565	198,448
Value Partners Fund Series – Value Partners Asian Total Return Bond Fund ^(c)	194,280	–
Value Partners Fund Series – Value Partners China A-Share Select Fund ^(d)	94	100
Value Partners Global Contrarian Fund ^(e)	–	17,263
Value Partners Greater China High Yield Income Fund ^(f)	1	1
Value Partners Hedge Fund Limited ^(f)	2	2
Value Partners High-Dividend Stocks Fund ^(g)	342	365
Value Partners Intelligent Funds – China Convergence Fund ^(d)	45,975	46,850
Value Partners Intelligent Funds – Chinese Mainland Focus Fund	127,260	138,636
Value Partners Ireland Fund Plc – Value Partners Global Emerging Market Bond Fund (Note 14) ^(h)	79,977	82,726
Value Partners Ireland Fund Plc – Value Partners Health Care Fund (Note 14)	50,789	46,334
Value Partners Multi-Asset Fund ^(d)	43,136	44,300
金海九號證券投資集合資金信託計劃	62,898	50,327
興業信託·興易惠理1號	1,274	1,223
惠理中國新時代優選1號私募投資基金	34,104	–
Total investments in investment funds which are managed/advised by the Group	1,902,300	1,641,614

(a) The units held were “C” units.

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

(c) The units held were Class A and Class X units.

(d) The units held were Class A units.

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

(f) The shares held were management shares.

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

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

24.4 Investments in an investment fund managed by a related company

As at 30 June 2018, the Group had investments in Malabar India Fund, LP amounting to HK\$37,163,000 (31 December 2017: HK\$41,207,000) which is managed by Malabar Investment LLC in which the Group had an interest of 6.6% (31 December 2017: 6.6%).

25 Cyclical

Performance fee valuation days of investment funds and managed accounts under management are mostly concentrated in December of each financial year. Therefore, the recognition of performance fees for the Group may be subject to cyclical fluctuation.

Other Information

Directors' interests in shares, underlying shares and debentures

As at 30 June 2018, 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 the Securities and Futures Ordinance (the "SFO")) which had notified to the Company and The Stock Exchange of Hong Kong Limited (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 Rules Governing the Listing of Securities on the Stock Exchange, were as follows:

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

Name of Director	Nature of interest	Number of Shares	Number of underlying Shares in which the Directors 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	–	21.75%
	Beneficial	57,470,828	56,620,000	6.14%
Mr. SO Chun Ki Louis	Beneficial	15,765,723	15,390,000	1.67%
Ms. HUNG Yeuk Yan Renee	Founder of trust ⁽²⁾	16,870,583	–	0.90%
	Beneficial	1,200,000	10,170,000	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.

Other Information

(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 Stenyng Holdings Limited, whose entire issued share capital is held by the spouse of Mr. LEE Siang Chin.

(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. The Company adopted a new share option scheme at the annual general meeting held on 4 May 2017 (the "2017 Share Option Scheme"). No new options was granted under 2017 Share Option Scheme yet. A summary of the movements of the outstanding share options during the six months ended 30 June 2018 are as follows:

Grantee	Date of grant	Exercise period	Exercise price (HK\$)	As at 01/01/2018	Number of Share Options			As at 30/06/2018
					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

Other Information

Grantee	Date of grant	Exercise period	Exercise price (HK\$)	As at 01/01/2018	Number of Share Options			As at 30/06/2018
					Granted	Exercised	Lapsed	
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

Other Information

Grantee	Date of grant	Exercise period	Exercise price (HK\$)	As at 01/01/2018	Number of Share Options			As at 30/06/2018
					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	-	(100,000)	-	100,000
	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	6,116,659	-	-	(336,666)	5,779,993
		12/05/2019-11/11/2021	13.60	6,116,659	-	-	(336,666)	5,779,993
		12/05/2020-11/11/2021	13.60	6,116,682	-	-	(336,668)	5,780,014
	17/06/2015	17/12/2015-16/12/2021	14.092	4,563,325	-	-	(63,333)	4,499,992
		17/12/2016-16/12/2021	14.092	4,563,325	-	-	(63,333)	4,499,992
		17/12/2017-16/12/2021	14.092	4,563,350	-	-	(63,334)	4,500,016
Total				119,720,000	-	(4,100,000)	(1,200,000)	114,420,000

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 period under review.
- (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.
- (4) The weighted average closing price of the shares immediately before the dates of exercise by Directors and employees was HK\$9.81.

Save as disclosed above, at no time during the period under review 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 which will not be added back to the number of shares available to be issued under the Scheme.

Other Information

Share option expenses

According to HKFRS 2, the fair value of share options granted to employees is recognized as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. In addition, employee forfeiture rate is also considered in determining the amount of share option expenses.

Where the employees 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.

Since the Black-Scholes option pricing model requires input of highly subjective assumptions, any change in the subjective input assumptions may materially affect the estimation of the fair value of an option.

Substantial shareholders' interests

As at 30 June 2018, 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/ underlying Shares	Approximate percentage of issued Shares
Ms. TO Hau Yin ⁽¹⁾	Spouse	517,821,312	27.90%
Mr. YEH V-Nee	Beneficial	298,805,324	16.10%
Mrs. YEH Mira ⁽²⁾	Spouse	298,805,324	16.10%
Cheah Capital Management Limited ⁽³⁾	Beneficial	403,730,484	21.75%
Cheah Company Limited ⁽³⁾	Corporate	403,730,484	21.75%
BNP Paribas Jersey Nominee Company Limited ⁽³⁾	Nominee	403,730,484	21.75%
BNP Paribas Jersey Trust Corporation Limited ⁽³⁾	Trustee	403,730,484	21.75%

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.

Save as aforesaid and as disclosed in the "Directors' interests in shares, Underlying shares and debentures" and "Substantial shareholders' interests" sections of this report, the Company has not been notified by any person who had interest or short position in the shares or underlying shares of the Company as at 30 June 2018 which were required to be notified to the Company pursuant to Part XV of the SFO or which are recorded in the register required to be kept by the Company under the SFO.

Other Information

Dividends

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: Nil).

Foreign exchange

Except for its Renminbi-denominated bank deposits, which has a balance of around HK\$154.0 million as at 30 June 2018 (30 June 2017: HK\$298.4 million), the Group has no significant foreign currency exposure because the majority of receipts and payments as well as assets and liabilities are denominated in the Hong Kong dollar (the Company's functional and presentation currency) and the United States dollar, which is linked to the Hong Kong dollar.

Human resources

As at 30 June 2018, the Group employed a total of 204 staff (30 June 2017: 189) in Hong Kong and Shanghai, 5 staff (30 June 2017: nil) in Shenzhen, 11 staff (30 June 2017: 11) in Singapore, 2 staff (30 June 2017: 2) in United Kingdom, nil staff (30 June 2017: 13) in Taiwan and nil staff (30 June 2017: 52) in Chengdu. Remuneration packages that take into account business performance, market practices and competitive market conditions are offered to employees in compensation for their contribution. In addition, share options are granted and discretionary bonuses are also given based on the Group's and individual staff's performances.

Purchase, sale or redemption of the Company's securities

Neither the Company nor any of its subsidiaries have purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2018.

Audit committee

In compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), the Company has an audit committee which comprises three Independent Non-executive Directors. The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including a review of the unaudited interim results of the Group for the six months ended 30 June 2018.

Independent review of interim results

The unaudited interim results of the Group for the six months ended 30 June 2018 have been reviewed by the Company's external Auditor in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity".

Corporate governance

The Company is committed to maintaining high standards of corporate governance. As corporate governance requirements change from time to time, the Board periodically reviews its corporate governance practices to meet the rising expectations of shareholders and to comply with increasingly stringent regulatory requirements. In the opinion of the Directors, the Company applied the principles and complied with the relevant code provisions in the Corporate Governance Code as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2018.

Other Information

Model Code for securities transactions by Directors

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

The Company has made specific enquiry with all Directors and all of them confirmed that they have complied with the required standard set out in the Model Code for the six months ended 30 June 2018.

Publication of interim results and interim report on the Stock Exchange

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

Our appreciation

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

By order of the board of

Value Partners Group Limited

Dr. AU King Lun MH, PhD

Chief Executive Officer and Executive Director

Hong Kong, 14 August 2018

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