惠 理 集 團
Value Partners Group

VALUE PARTNERS GROUP LIMITED
惠理集團有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 806)

INTERIM RESULTS ANNOUNCEMENT FOR THE PERIOD ENDED 30 JUNE 2018

FINANCIAL HIGHLIGHTS

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

	For the period ended 30 June		
(In HK$ million)	**2018 Unaudited**	2017 Unaudited	% 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	

INTERIM RESULTS

The Board of Directors (the "Board") of Value Partners Group Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the period ended 30 June 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	2	**958,100**	752,242
Distribution fee expenses		**(492,451)**	(407,861)
Net fee income		**465,649**	344,381
Other income		**47,357**	21,961
Total net income		**513,006**	366,342
Expenses			
Share-based compensation		**(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	3	**(55,388)**	109,545
Operating profit (after other gains/losses)		**190,674**	249,854
Share of gain of a joint venture	4	**49,969**	–
Profit before tax		**240,643**	249,854
Tax expense	5	**(46,382)**	(24,645)
Profit for the period from continuing operations		**194,261**	225,209
Discontinued operations			
Loss for the period from discontinued operations	6	**–**	(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

		Six months ended 30 June	
	Note	**2018** ***HK$'000*** **Unaudited**	2017 *HK$'000* Unaudited
Other comprehensive (loss)/income for the period			
– Items that may be subsequently reclassified to profit or loss			
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)
	7	**10.5**	11.8
Diluted earnings per share			
– Continuing operations		**10.5**	12.2
– Discontinued operations		**–**	(0.4)
	7	**10.5**	11.8

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		**28,597**	7,710
Intangible assets		**15,736**	17,529
Investment in a joint venture	*4*	**237,143**	190,867
Deferred tax assets		**726**	122
Investments	*9*	**1,586,818**	1,511,107
Other assets		**44,059**	44,471
		1,913,079	1,771,806
Current assets			
Investments	*9*	**784,327**	127,474
Fees receivable	*10*	**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	*11*	**1,686,124**	2,204,704
		2,709,555	5,106,235
Current liabilities			
Investments	*9*	**17,926**	11,800
Accrued bonus		**97,261**	662,926
Distribution fee expenses payable	*12*	**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	*13*	**3,888**	3,991
Current tax liabilities		**344,113**	320,614
		674,892	1,218,726
Net current assets		**2,034,663**	3,887,509
Non-current liabilities			
Accrued bonus		**12,845**	19,292
Net assets		**3,934,897**	5,640,023
Equity			
Equity attributable to owners of the Company			
Issued equity	*14*	**1,410,107**	1,391,473
Other reserves		**224,298**	255,182
Retained earnings		**2,300,492**	3,993,368
Total equity		**3,934,897**	5,640,023

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The information from this interim results announcement has been extracted from the unaudited condensed consolidated interim financial information for the six months ended 30 June 2018. The unaudited 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 unaudited 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 (the "HKFRS") issued by the Hong Kong Institute of Certified Public Accountants.

Except as described below, the accounting policies used in the preparation of these unaudited condensed consolidated interim financial information are consistent with those set out in the annual financial statements for the year ended 31 December 2017.

The Group has adopted the new standards, amendments and interpretations which are effective for the Group's financial year beginning 1 January 2018. The adoption had no significant impact on the Group's results and financial position nor any substantial changes in Group's accounting policies, except for those disclosed as follows:

(i) HKFRS 9 "Financial instruments" addresses the classification, measurement and recognition of financial assets and liabilities. HKFRS 9 establishes three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial assets.

On 1 January 2018, the Group has reclassified its equity instruments classified as available-for-sale financial assets to financial assets at fair value through profit or loss to reflect the effect of the above. Related net fair value gains of HK$33,455,000 were transferred from the available-for-sale financial assets revaluation reserve to retained earnings on 1 January 2018.

(ii) HKFRS 15 "Revenue from contracts with customers" requires revenue to be recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. In consideration of the fund distribution services as a separate performance obligation from asset management and the obligation is satisfied at a point in time upon the investors' subscription, the front-end fees and rebates incurred from the distribution services should be recognized at a point in time.

On 1 January 2018, deferred front-end fee and rebate liabilities of HK$978,000 as previously reported under "other payables and accrued expenses" have been transferred to retained earnings to reflect the effect of the above.

2. REVENUE

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

	Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	Unaudited	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

3. OTHER (LOSSES)/GAINS – NET

	Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	Unaudited	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

4. 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, 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 comprising of revaluation gain of properties of HK$31,255,000 (2017: Nil) and rental income of HK$14,433,000 (2017: Nil).

5. 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	2017
	HK$'000	*HK$'000*
	Unaudited	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

6. 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, the Group's small loan business in Chengdu. 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.

7. EARNINGS PER SHARE

The calculations of basic and diluted earnings per share are based on the profit attributable to owners of the Company of HK$194,261,000 (2017: HK$219,501,000).

The basic earnings per share is based on the weighted average number of shares in issue during the period of 1,855,236,000 (2017: 1,851,715,000). The diluted earnings per share is calculated by adjusting the weighted average number of shares in issue during the period of 1,855,236,000 (2017: 1,851,715,000) by 472,000 (2017: 1,758,000) to assume conversion of all dilutive potential ordinary shares granted under the Company's share option scheme.

8. 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).

9. 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	31 December 2017	**30 June 2018**	31 December 2017	**30 June 2018**	31 December 2017	**30 June 2018**	31 December 2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
	Unaudited	Audited	**Unaudited**	Audited	**Unaudited**	Audited	**Unaudited**	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 the Group's available-for-sale financial assets to financial assets at fair value through profit or loss. Refer to Note 1 for details.

10. FEES RECEIVABLE

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

	30 June 2018	31 December 2017
	HK$'000	*HK$'000*
	Unaudited	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

11. CASH AND CASH EQUIVALENTS

	30 June 2018	31 December 2017
	HK$'000	*HK$'000*
	Unaudited	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

12. DISTRIBUTION FEE EXPENSES PAYABLE

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

	30 June 2018	31 December 2017
	HK$'000	*HK$'000*
	Unaudited	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

13. OTHER FINANCIAL LIABILITIES

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

14. 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

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 fund[1] 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.

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 fund[1] 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 months[2]. 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 fund[1] to complement the strongly performing fixed income hedge fund[1] that we launched late last year. We are also preparing to launch a second real estate private equity fund[1], 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 2018[3], 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.

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

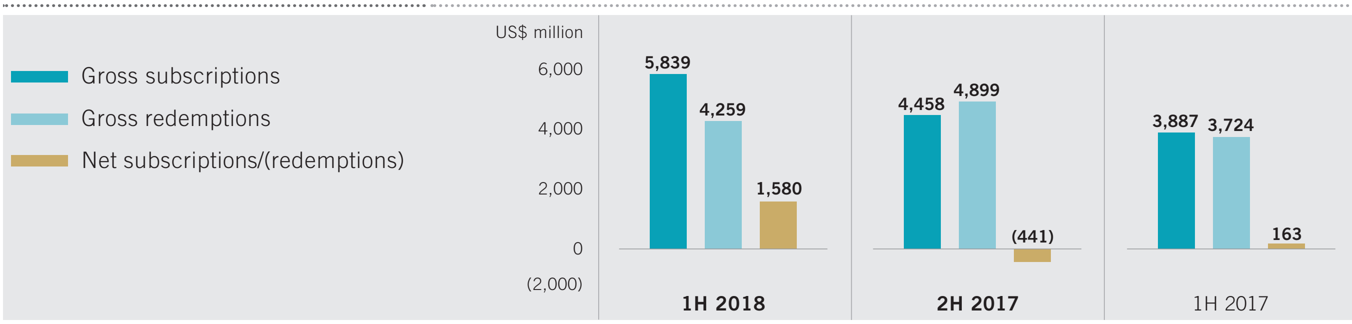
Assets Under Management

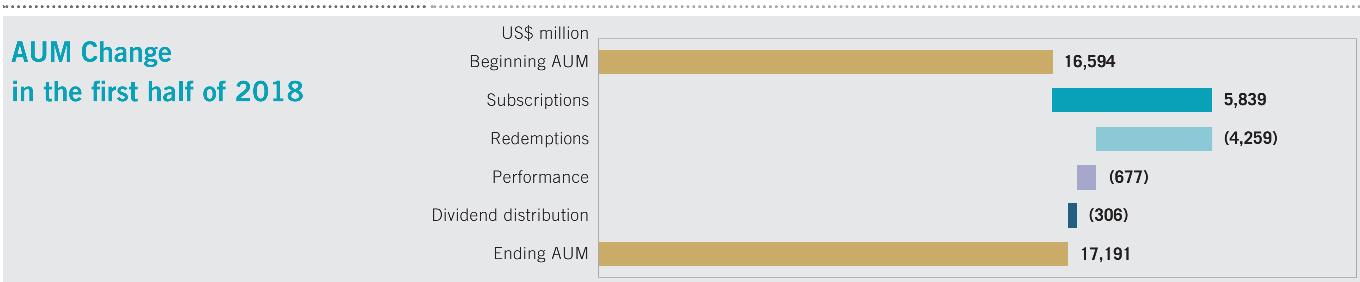
AUM and return

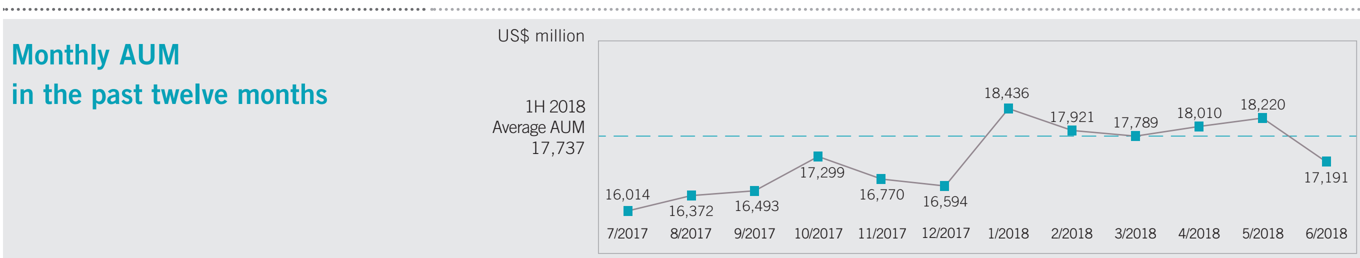
The Group's AUM increased to US$17,191 million at the end of June 2018 (31 December 2017: US$16,594 million). The growth was mainly due to net subscriptions of US$1,580 million in the first half of 2018.

Overall fund performance[1], 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 Fund[2], the Group's largest public fund[3] in Hong Kong, recorded a decline of 2.9% during the period. The Value Partners Classic Fund[4], our flagship product, fell 4.4% during the period, while the Value Partners High-Dividend Stocks Fund[5] 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).



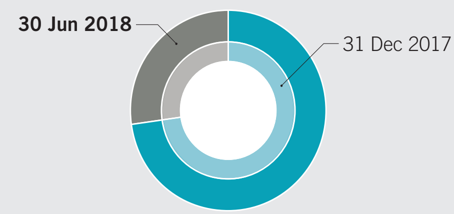




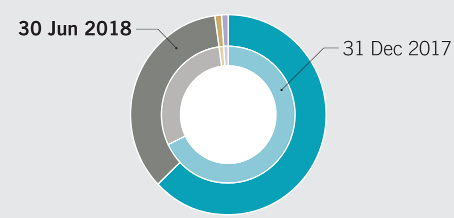
AUM by category

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.

Classification by brand	30 Jun 2018	31 Dec 2017
Own Branded Funds	**73%**	73%
White Label & Co-branded Funds	**27%**	27%



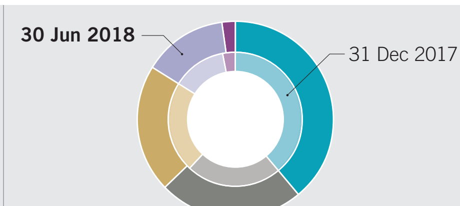
Classification by strategy	30 Jun 2018	31 Dec 2017
Absolute Return Long-biased Funds	**63%**	68%
Fixed Income Funds	**35%**	30%
Quantitative Funds & ETF	**1%**	1%
Alternative Funds	**1%**	1%



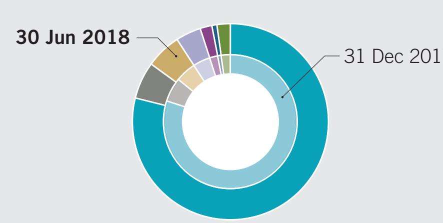
Client base

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%).

Client analysis by type	30 Jun 2018	31 Dec 2017
Retail	**39%**	39%
High-net-worth individuals	**24%**	23%
Pension funds	**21%**	22%
Institutions	**14%**	13%
Others	**2%**	3%



Client analysis by geographical region	30 Jun 2018	31 Dec 2017
Hong Kong	**79%**	80%
Singapore	**6%**	6%
China	**6%**	5%
United States	**4%**	4%
Europe	**2%**	2%
Australia	**1%**	1%
Others	**2%**	2%



Summary of results

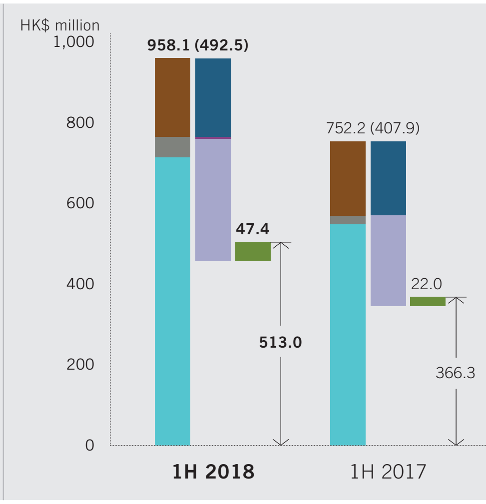
Key financial highlights for the reporting period are as follows:

(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

Breakdown of total net income

(In HK$ million)	**1H 2018**	1H 2017
Revenue		
Management fees	**712.9**	546.7
Performance fees	**50.7**	22.3
Front-end fees	**194.5**	183.2
Distribution fee expenses		
Management fee rebate	**(303.4)**	(224.2)
Performance fee rebate	**5.0**	(0.8)
Other revenue rebate	**(194.1)**	(182.9)
Other income		
Other income	**47.4**	22.0



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).

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.

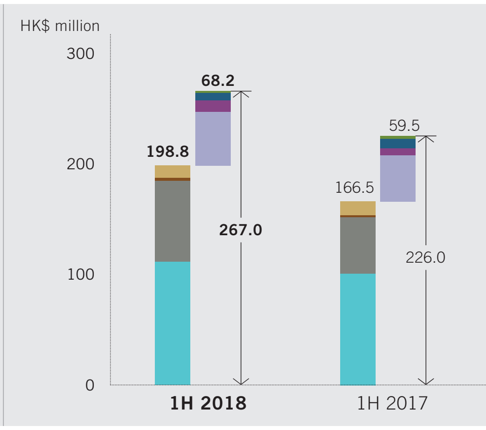
Investment in a joint venture

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).

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.

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 of business performance, market practices and competitive market conditions are offered to employees in compensation for their contribution. In addition, share options are granted and discretionary bonuses are also given based on the Group's and individual staff's performances.

Purchase, sale or redemption of the Company's securities

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

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

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