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VALUE PARTNERS GROUP LIMITED
惠理集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 806)

INTERIM RESULTS ANNOUNCEMENT
FOR THE PERIOD ENDED 30 JUNE 2020

FINANCIAL HIGHLIGHTS

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

(In HK\$ million)	For the period ended 30 June		
	2020 Unaudited	2019 Unaudited	% Change
Total revenue	579.8	815.1	-28.9%
Gross management fees	519.6	679.5	-23.5%
Gross performance fees	15.6	3.4	+358.8%
Operating profit (before other gains)	114.7	162.0	-29.2%
Profit attributable to owners of the Company	125.5	250.9	-50.0%
Basic earnings per share (HK cents)	6.8	13.5	-49.6%
Diluted earnings per share (HK cents)	6.8	13.5	-49.6%
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 2020.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2020

	<i>Note</i>	Six months ended 30 June	
		2020 <i>HK\$'000</i> Unaudited	2019 <i>HK\$'000</i> Unaudited
Income			
Fee income	2	579,819	815,059
Distribution fee expenses		(272,102)	(444,352)
Net fee income		307,717	370,707
Other income		46,872	49,834
Total net income		354,589	420,541
Expenses			
Share-based compensation		(8,275)	(17,543)
Other compensation and benefit expenses	6	(153,978)	(170,369)
Operating lease rentals		(4,491)	(4,616)
Depreciation of right-of-use assets – properties		(14,900)	(14,742)
Other expenses		(58,278)	(51,278)
Total expenses		(239,922)	(258,548)
Operating profit (before other gains)		114,667	161,993
Net gains on investments		29,846	101,536
Fair value gain on an investment property	4	–	6,299
Others		(6,826)	(407)
Other gains – net	3	23,020	107,428
Operating profit (after other gains)		137,687	269,421
Finance costs		(1,883)	(3,084)
Share of gain on joint ventures	5	10,143	11,382
Profit before tax		145,947	277,719
Tax expense	7	(20,414)	(26,812)
Profit for the period attributable to owners of the Company		125,533	250,907

		Six months ended 30 June	
	<i>Note</i>	2020 <i>HK\$'000</i> Unaudited	2019 <i>HK\$'000</i> Unaudited
Other comprehensive loss for the period			
<i>– Items that may be subsequently reclassified to profit or loss</i>			
Fair value gains on financial assets at fair value through other comprehensive income		–	295
Foreign exchange translation		(11,350)	(2,596)
Other comprehensive loss for the period		(11,350)	(2,301)
Total comprehensive income for the period attributable to owners of the Company		114,183	248,606
Earnings per share attributable to owners of the Company (HK cents per share)			
Basic earnings per share	<i>8</i>	6.8	13.5
Diluted earnings per share	<i>8</i>	6.8	13.5

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2020

	<i>Note</i>	30 June 2020 HK\$'000 Unaudited	31 December 2019 HK\$'000 Audited
Non-current assets			
Property, plant and equipment		186,642	195,025
Right-of-use assets – properties		25,439	40,466
Investment property	4	163,871	168,526
Intangible assets		17,200	15,409
Investments in joint ventures	5	308,288	318,504
Deferred tax assets		271	–
Investments	10	1,679,383	1,297,836
Other assets		2,886	11,634
		2,383,980	2,047,400
Current assets			
Investments	10	77,236	42,291
Investment held-for-sale	11	–	395,549
Fees receivable	12	113,828	179,434
Prepayments and other receivables		51,254	47,293
Cash and cash equivalents	13	1,810,399	2,200,778
		2,052,717	2,865,345
Current liabilities			
Investment held-for-sale	11	–	222
Accrued bonus		57,164	151,218
Distribution fee expenses payable	14	110,296	157,033
Other payables and accrued expenses		37,233	42,909
Lease liabilities		26,904	28,056
Current tax liabilities		13,802	40,640
		245,399	420,078
Net current assets		1,807,318	2,445,267
Non-current liabilities			
Accrued bonus		8,261	9,937
Borrowing		78,281	80,538
Lease liabilities		972	12,335
Deferred tax liabilities		–	413
		87,514	103,223
Net assets		4,103,784	4,389,444
Equity			
Equity attributable to owners of the Company			
Issued equity	15	1,407,105	1,407,105
Other reserves		239,044	242,439
Retained earnings		2,457,635	2,739,900
Total equity		4,103,784	4,389,444

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 2020. The unaudited condensed consolidated interim financial information for the six months ended 30 June 2020 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 2019, which have been prepared in accordance with Hong Kong Financial Reporting Standards (the “HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants.

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2019. Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

Investments and other financial assets

The Group has purchased certain debt instruments during the period and the relevant accounting policy is as follows:

Debt instruments

Subsequent measurement of debt instruments depends on the Group’s business model for managing the asset and the cash flow characteristics of the asset. There are two measurement categories into which the Group classifies its debt instruments:

- **Amortized cost:** Assets that are held for collection of contractual cash flows, where those cash flows represent solely payments of principal and interest, are measured at amortized cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.
- **Fair value through other comprehensive income (“FVOCI”):** 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. Movements in the carrying amount are taken through other comprehensive income (“OCI”), except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses, which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance 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.

2. REVENUE

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

	Six months ended 30 June	
	2020 <i>HK\$'000</i> Unaudited	2019 <i>HK\$'000</i> Unaudited
Management fees	519,618	679,537
Performance fees	15,568	3,368
Front-end fees	44,633	132,154
Total fee income	579,819	815,059

3. OTHER GAINS – NET

	Six months ended 30 June	
	2020 <i>HK\$'000</i> Unaudited	2019 <i>HK\$'000</i> Unaudited
Net gains on investments		
Net gains on financial assets at fair value through profit or loss	29,846	101,536
Net fair value gain on an investment property	–	6,299
Others		
Net foreign exchange losses	(6,875)	(907)
Gains on disposal of property, plant and equipment	49	500
Total other gains – net	23,020	107,428

4. INVESTMENT PROPERTY

On 21 September 2018, the Group acquired the entire interest in a student accommodation investment property located in New Zealand with a consideration of HK\$146,390,000, which was subsequently revalued by the Group as at 30 June 2020 and 31 December 2019.

5. INVESTMENTS IN JOINT VENTURES

As at 30 June 2020, “Investments in joint ventures” on the condensed consolidated balance sheet, amounting to HK\$308,288,000 (31 December 2019: HK\$318,504,000), represent the Group’s 50% equity interest in Value Investing Group Company Limited (“Value Investing”), Clear Miles Hong Kong Limited (“Clear Miles HK”) and VP-ZACD Holdings Pte. Ltd.. Value Investing has trust beneficiary interests in three logistics centers in Japan and Clear Miles HK holds an Australian industrial property through its subsidiary.

6. OTHER COMPENSATION AND BENEFIT EXPENSES

The government wage subsidies of HK\$1,631,000 (2019: Nil) are included in the “other compensation and benefit expenses” line item. There are no unfulfilled conditions or other contingencies attaching to these subsidies.

7. 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 Cayman Islands 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 2020 at the rate of approximately 16.5% (2019: 16.5%). Tax outside Hong Kong is calculated at the rates applicable in the relevant jurisdictions.

	Six months ended 30 June	
	2020 <i>HK\$'000</i> Unaudited	2019 <i>HK\$'000</i> Unaudited
Current tax		
Hong Kong profits tax	12,830	22,372
Overseas tax	5,689	5,480
Adjustments in respect of prior years	2,579	(529)
Total current tax	21,098	27,323
Deferred tax		
Origination and reversal of temporary differences	(684)	(511)
Total tax expense	20,414	26,812

8. 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\$125,533,000 (2019: HK\$250,907,000).

The basic earnings per share is based on the weighted average number of shares in issue during the period of 1,855,083,000 (2019: 1,855,815,000). The diluted earnings per share is calculated by adjusting the weighted average number of shares in issue during the period of 1,855,083,000 (2019: 1,855,815,000) by 54,000 (2019: 155,000) to assume conversion of all dilutive potential ordinary shares granted under the Company's share option scheme.

9. DIVIDENDS

Final dividend of HK\$408,118,000 declared by the Company is related to the year ended 31 December 2019 and was paid on 21 May 2020. No interim dividend was proposed by the Board of Directors for the six months ended 30 June 2020 (2019: Nil).

10. INVESTMENTS

Investments include the following:

	Financial assets at fair value through profit or loss		Financial assets at amortized cost		Total	
	30 June 2020 HK\$'000 Unaudited	31 December 2019 HK\$'000 Audited	30 June 2020 HK\$'000 Unaudited	31 December 2019 HK\$'000 Audited	30 June 2020 HK\$'000 Unaudited	31 December 2019 HK\$'000 Audited
Listed securities						
Equity securities – Long – Hong Kong	14,919	38,441	–	–	14,919	38,441
Equity securities – Long – United States	374	307	–	–	374	307
Investment funds – Hong Kong	222,515	192,683	–	–	222,515	192,683
Fair value of listed securities	237,808	231,431	–	–	237,808	231,431
Quoted debt securities						
Debt securities – China	–	–	147,406	–	147,406	–
Amortized cost of quoted debt securities	–	–	147,406	–	147,406	–
Unlisted securities						
Equity securities – Singapore	1,195	1,425	–	–	1,195	1,425
Investment funds – Australia	–	21,330	–	–	–	21,330
Investment funds – Cayman Islands	218,847	208,528	–	–	218,847	208,528
Investment funds – China	86,648	91,061	–	–	86,648	91,061
Investment funds – Hong Kong	141,083	125,585	–	–	141,083	125,585
Investment funds – Ireland	419,461	143,147	–	–	419,461	143,147
Investment funds – South Korea	35,013	41,115	–	–	35,013	41,115
Investment funds – United States	31,775	36,728	–	–	31,775	36,728
Loan note – Australia	437,383	439,777	–	–	437,383	439,777
Fair value of unlisted securities	1,371,405	1,108,696	–	–	1,371,405	1,108,696
Representing:						
Non-current	1,587,170	1,297,836	92,213	–	1,679,383	1,297,836
Current	22,043	42,291	55,193	–	77,236	42,291
Total investments	1,609,213	1,340,127	147,406	–	1,756,619	1,340,127

11. INVESTMENT HELD-FOR-SALE

The Group classified its interests in an investment fund as held-for-sale as the Group intends to market the fund and dilute its holdings as soon as practicably possible to a level where its aggregate economic interest does not constitute a control. As at 31 December 2019, the major assets of the relevant investment fund were quoted debt securities and the total fair value of the investment held-for-sale was HK\$395,327,000.

12. 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 2020 HK\$'000 Unaudited	31 December 2019 HK\$'000 Audited
Fees receivable that were past due but not impaired		
1 – 30 days	1,467	744
31 – 60 days	–	622
61 – 90 days	–	455
Over 90 days	112	800
	<u>1,579</u>	<u>2,621</u>
Fees receivable that were within credit period	112,249	176,813
	<u>113,828</u>	<u>179,434</u>
Total fees receivable	<u>113,828</u>	<u>179,434</u>

13. CASH AND CASH EQUIVALENTS

	30 June 2020 HK\$'000 Unaudited	31 December 2019 HK\$'000 Audited
Cash at banks and in hand	405,499	129,147
Short-term bank deposits	1,402,884	2,039,240
Deposits with brokers	2,016	32,391
	<u>1,810,399</u>	<u>2,200,778</u>
Total cash and cash equivalents	<u>1,810,399</u>	<u>2,200,778</u>

14. 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 2020 HK\$'000 Unaudited	31 December 2019 HK\$'000 Audited
0 – 30 days	98,730	148,181
31 – 60 days	1,999	654
61 – 90 days	795	817
Over 90 days	8,772	7,381
	<hr/>	<hr/>
Total distribution fee expenses payable	110,296	157,033
	<hr/> <hr/>	<hr/> <hr/>

15. ISSUED EQUITY

	Number of shares	Issued equity HK\$'000
Unaudited		
As at 1 January 2020 and 30 June 2020	1,855,082,831	1,407,105
	<hr/>	<hr/>
Audited		
As at 1 January 2019	1,855,814,831	1,410,107
Share buy back	(732,000)	(3,002)
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As at 31 December 2019	1,855,082,831	1,407,105
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MANAGEMENT DISCUSSION AND ANALYSIS

The upbeat mood in the first month of 2020 proved to be extremely short-lived. The COVID-19 outbreak from mid-January onwards has posed unprecedented challenges to world health, the global business economy and the financial markets.

Massive shutdown of businesses worldwide due to stringent social distancing measures which range from major disruptions particularly to the travel, tourism and retail sectors has caused many parts of global economy almost coming to a standstill. The pandemic really in some ways is the worst economic crisis that the world has experienced.

However, Asia, in particular the Mainland China, where our core market are situated and our long-term growth potentials lie, remains fundamentally strong and solid. In particular, the Chinese Government took decisive action to contain the spread of the virus and shutdown the affected areas. After months of strict containment and preventive measures, the Chinese economy has clear signs of undergoing a gradual recovery and business development and market sentiments in the markets where we operate is improving.

As at 30 June 2020, our assets under management (“AUM”) stood at US\$11.8 billion, down from US\$15.0 billion on 31 December 2019. During the first half, we recorded net redemptions of US\$2.2 billion. The decrease in AUM in the year to June sent our operating profit lower to HK\$114.7 million. Our net profit came in at HK\$125.5 million during the period. Despite the unexpected market conditions, our generated treasury gains reached HK\$23.0 million.

We noted from our distribution channels that investors have turned very cautious in allocating their assets, with some deciding to hold cash over the near term. The AUM outflow during the first half was mostly from our fixed income products when the COVID-19 epidemic spread beyond Asian borders and arrived in the U.S. and Europe, and the oil prices slumped following a weakened demand. The fund outflow pressure is not isolated to a single firm but across global and regional fixed income vehicles investing in the entire credit spectrum. As central banks and governments worldwide began to unleash massive fiscal stimulus and monetary interventions, the tightened market liquidity started to ease and the flow of capital stabilized in the second quarter this year.

Business resumption and outlook

At the initial phase of the pandemic when the work-from-home arrangement was enforced among most of our business partners and distributors, fund sales activities was affected. Distancing the frontline investment consultants and representatives from the end investors proved to have hurt the effectiveness of our sales efforts. As more distributors gradually become used to remote working, it shall facilitate our business to accelerate recovery. Furthermore, investors continue to take solace in the fact that the governments globally have obtained abundant experience with virus testing and containment measures since the first wave of the outbreak.

Despite the unprecedented shuffle of workplace, the Group continues to uphold professionalism and serves our stakeholders with diligence. Overall, our business operations have been intact with an effective business continuity plan in place since January. Moreover, regular activities have been undertaken through secured online platforms. These functions include conducting investment research, sales and marketing programs, client events, and investor relations and communications.

We braved the new norms and organized a key client event online. The Value Partners 2H 2020 Market Outlook conference was hosted as a webinar on an online platform, which connected us virtually with more than 200 institutional investors and distribution partners. On 23 June 2020, our Co-Chairman and Co-Chief Investment Officer Dato' Seri CHEAH Cheng Hye was invited to speak at *Bloomberg's* Invest Global Conference, one of the most influential industry events that brings together financial leaders worldwide. At the event, Dato' Seri CHEAH guided audience his views to navigate in the new world order under COVID-19 and the re-escalated Sino-U.S. tensions.

The Group has committed with endeavour and resources to continually engage with our external stakeholders, which enabled dynamic two-way dialogues and relationship building. Meanwhile, as the pandemic still rages in part of the globe, we maintain our mindful watch over any risks of the next wave of contagion.

Performance and expanding product offering

Globally during the first half of 2020, the virus uncertainty and lockdown arrangements have severely hurt investors' confidence. Despite challenges, the Group was able to continue its prime duty as a fund manager by delivering outperformance in the portfolios under management.

Several of our equity funds performed strongly and achieved a positive return during the first six months of the year. Among our funds, the two best-performing funds are the Health Care Fund¹ and Chinese Mainland Focus Fund², which respectively returned 20.2%³ and 19.1%² during the period. Other equity products, including the flagship Value Partners Classic Fund, have reached their respective high-water marks.

To enhance our products' visibility and promote our investment capabilities, the Group launched digital campaigns via various channels, including both social and traditional media. In June 2020, the Group experienced success in promoting Chinese Mainland Focus Fund and Value Gold ETF, which respectively addressed investors' interest by providing them an entry into investing in China's new economy sectors and gold bullion as a portfolio diversifier. The marketing campaigns span from animated videos to social media posts, encompassing a broad advertorial strategy. We gained positive feedback from fund distributors and growing inquiries from potential investors.

In terms of product offering expansion, the Group targets to launch additional strategies by the end of 2020.

Despite the virus hit, the long-term structural story of China remains intact. As a pioneer investor in the Greater China markets since 1993, we are pleased to see a growing population of Southeast Asian investors that acknowledge the opportunity. We are delighted to announce our plan to list a Shariah-compliant ETF tracking China A-shares on the Malaysian bourse. An ETF which will enable investors to play a part in China's growth and future while complying with the Shariah principles.

Furthermore, the COVID-19 aftermath is set to bring about long-term positive impacts on the Mainland's medical system, catalyzing improvements in medical equipment, drug and vaccine logistics system, research and development. In addition to an ageing population, China's healthcare sector enjoys an upside potential that is set to unfold over the next few decades. Meanwhile, our existing China-focused healthcare strategy, established in 2015, is to seek authorization from the Hong Kong regulators which will enable retail distribution in the city.

The importance of holding gold in a portfolio has, well and truly, been demonstrated during these times of rising market uncertainties. To that end, we are constantly reviewing our existing products and aim to enhance the funds' features to meet investors' increasing needs.

On our alternative capabilities, we expect the first closing of a Malaysia Shariah property fund by the third quarter of 2020. After which, we will begin investments towards Malaysian work dormitories. The final close for the fund is scheduled for July 2021. It is worth noting that the fund is the first Shariah-compliant strategy in the world which focuses on the PBWA sector – purpose build workers accommodations. Riding on the wave of attractive fundamentals, the real estate sector in Asia is expected to continue thriving with foreseeable rental growth and investments returns.

Industry-recognized brand

The Group's fixed income strategy and investment professionals scored a total of five accolades from Insights & Mandate ("I&M") Professional Investment Awards and Refinitiv Lipper Fund Awards 2020.

The I&M titles include fund performance awards in the Asian High Yield category over the 3-year and 5-year periods. Mr. Gordon IP, our Chief Investment Officer of Fixed Income, has been named the CIO of the Year for Fixed Income in the regional category and the market awards (Hong Kong) category, respectively.

Value Partners Greater China High Yield Income Fund, our flagship fixed income product, has also been awarded as the Best High Yield Bond in USD over the 5-year period in the Refinitiv Lipper Fund Awards 2020.

Mainland China-related growth and opportunities

In China, we have made significant strides in continually strengthening our onshore presence. Currently, we manage 11 private fund management products under our WFOE entity and distribute two eligible products under the Mainland-Hong Kong Mutual Recognition of Funds ("MRF") scheme. Our ongoing efforts to strengthen China Business have also been recognized by the industry.

In the latest ranking by Z-Ben Advisors, Value Partners ranks in the ninth place of global managers operating in China. The recognition by China's leading fund industry consulting firm is an honor. In particular, Value Partners is the only Asia-based asset manager on the top 10 wholly foreign-owned enterprises ("WFOE") serving the Mainland China market with it being increasingly competitive. Recently, we are also entitled as "Best Offshore Trustee Institution for Insurers" and "Most Favored Offshore Asset Manager for Insurers (Offshore open market business)" by Insurance Asset Management Association of China. Furthermore, our China Business was named the "Most Attractive Foreign Private Fund Brand" at the fifth China Golden Changjiang Private Fund Development Summit, co-organized by Securities Times and Changjiang Securities, and one of the "Most Promising WFOE Private Fund Houses" at the 11th Golden Sunshine Award by Shanghai Securities News.

Meanwhile, Value Partners Investment Management (Shanghai) Limited has obtained an Investment Advisory Qualification from the Asset Management Association of China. The qualification enables our mainland entity to service the private asset management advisory needs.

Global footprint

Global central banks amassed the rescue plan post-COVID-19. The virtually zero interest rate in some major markets has resulted in a growing dominance of low and negative-yielding products. In Asia, with its pandemic situation better than elsewhere, Asian assets, in particular those from China, continue to offer decent relative investment value. China presents a “first-in, first-out” case and an orderly recovery since April, with some sectors delivering impressive year-on-year growth.

Overseas investors’ interest in Chinese equities and bonds is expanding and the trend is to sustain for at least the coming decade. This is primarily because of the underrepresentation of foreign investors in China’s onshore assets. Now, the size of Chinese markets becomes too big to ignore for foreign investors, who collectively own merely 4% of the assets⁴. Incremental growth in foreign interests have manifested itself in several institutional tenders for China specialists, in which Value Partners has been asked to participate. Ahead, our global arms will continue to build brand awareness for Value Partners across the world.

ESG commitment and implementation

The Group is a proud signatory of the United Nations Principles for Responsible Investment and is committed to actively support and promote responsible investment initiatives. We strictly abide by the environmental, social and corporate governance (“ESG”) disclosure requirements on the Hong Kong Stock Exchange as a listed member, and fully align our ownership responsibilities with the Principles of Responsible Ownership outlined by the Securities and Futures Commission of Hong Kong. Being a pioneer value investor in Asian markets since 1993, we conduct in-depth due diligence meetings with the investees on a regular basis and exercise human judgement based on the value investing discipline. This process enables us to evaluate companies with ESG metrics effectively.

In terms of risk-adjusted return, as ESG factors tend to play out over a long term, the Group recognizes that integrating ESG analysis in the investment process can help identify business models that likely generate sustainable returns and resist competitive pressures, and is consistent with our investment philosophy.

Outlook

As we highlighted in March this year, the financial markets are to weather risks for 2020, which could stem from geopolitical tussles, trade or diseases. While China’s macro recovery is ahead of the curve and prospects remain strong, we expect corporate earnings recovery would be diverging among sectors. The unprecedented COVID-19 situations present many unknowns globally. We expect the disparity in company earnings and macro expectations to emerge. With that in mind, it is crucial to stick to investment discipline, with which we identify whether share prices are buoyed or dented by short-term sentiments or individual companies’ fundamental strength. We believe the latter would be more rewarding following the global recovery path.

Appreciation

Last but not least, we would like to thank all of our colleagues, shareholders, clients and business partners for their continued support. We would also like to recognize our colleagues' dedication, commitment and contributions towards the success of Value Partners.

1. *These funds are not authorized by the Securities and Futures Commission of Hong Kong and are not available to the general public in Hong Kong.*
2. *Annual calendar returns of Value Partners' Chinese Mainland Focus Fund over the past five years: 2015: +1.7%; 2016: -10.3%; 2017: +61.2%; 2018: -28.3%; 2019: +36.6%; 2020 (Year to date as at 30 June): +19.1%.*
3. *Annual calendar returns of the health care fund over the past five years : 2015: -3.7%; 2016: +1.9%; 2017: +20.8%; 2018: -5.4%; 2019: +21.0%; 2020 (Year to date as at 30 June): +20.2%.*
4. *Source: Wind.*

Source for performance figures: Value Partners and Bloomberg. Past performance is not indicative of future performance. Performance is in USD, NAV to NAV, with dividend reinvested and net of fees.

FINANCIAL REVIEW

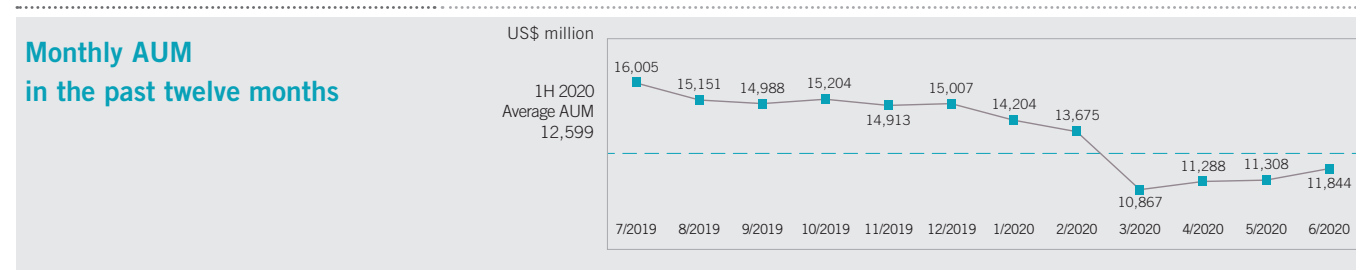
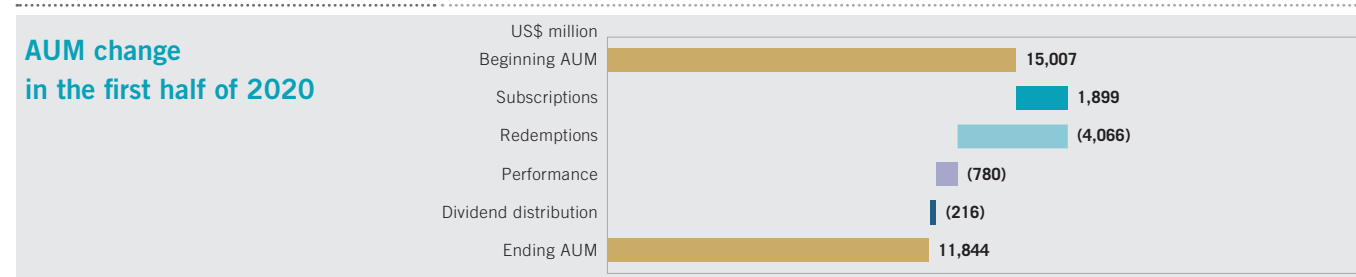
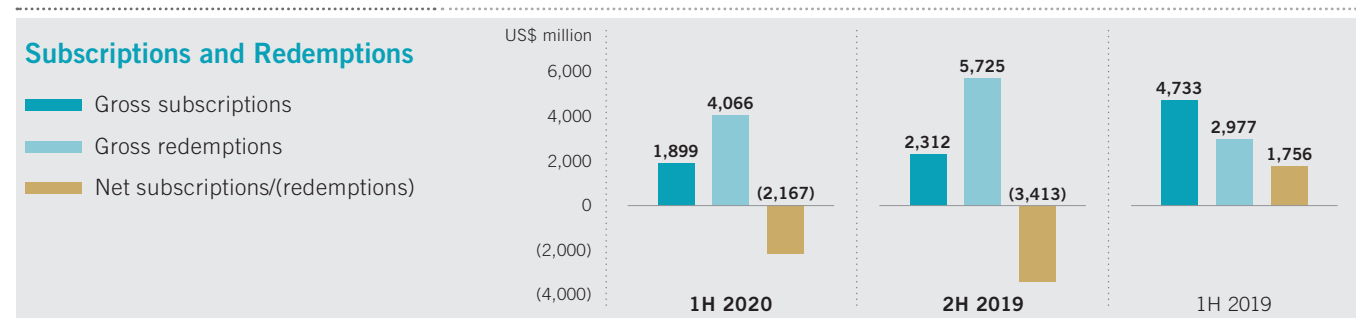
Assets Under Management (“AUM”)

AUM and return

The Group’s AUM stood at US\$11,844 million at the end of June 2020 (31 December 2019: US\$15,007 million). The decline was mainly due to the Group’s net redemptions of US\$2,167 million in the first half of 2020 and the negative fund performance which dragged AUM by US\$780 million.

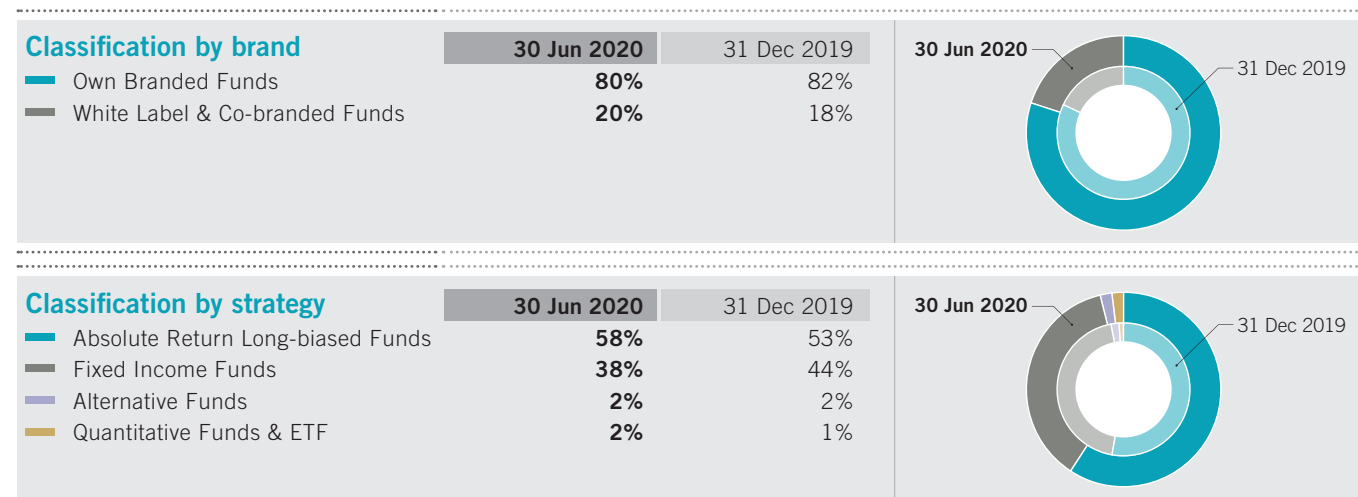
Overall fund performance¹, calculated as the asset-weighted average return of funds under management, decreased 4.3% in the period under review. Among our funds, the Value Partners Greater China High Yield Income Fund², the Group’s largest public fund³ in Hong Kong, fell 6.8% during the period. The Value Partners Classic Fund⁴, our flagship product, increased 0.2% during the period, while the Value Partners High-Dividend Stocks Fund⁵ declined 11.9% during the period.

In the first half of 2020, gross subscriptions decreased to US\$1,899 million from US\$2,312 million in the second half of 2019 as investment sentiments turned sour. Meanwhile, gross redemptions for the first half of 2020 came down to US\$4,066 million from US\$5,725 million in the second half of 2019. All in all, we had net redemptions of US\$2,167 million (2H 2019: US\$3,413 million).



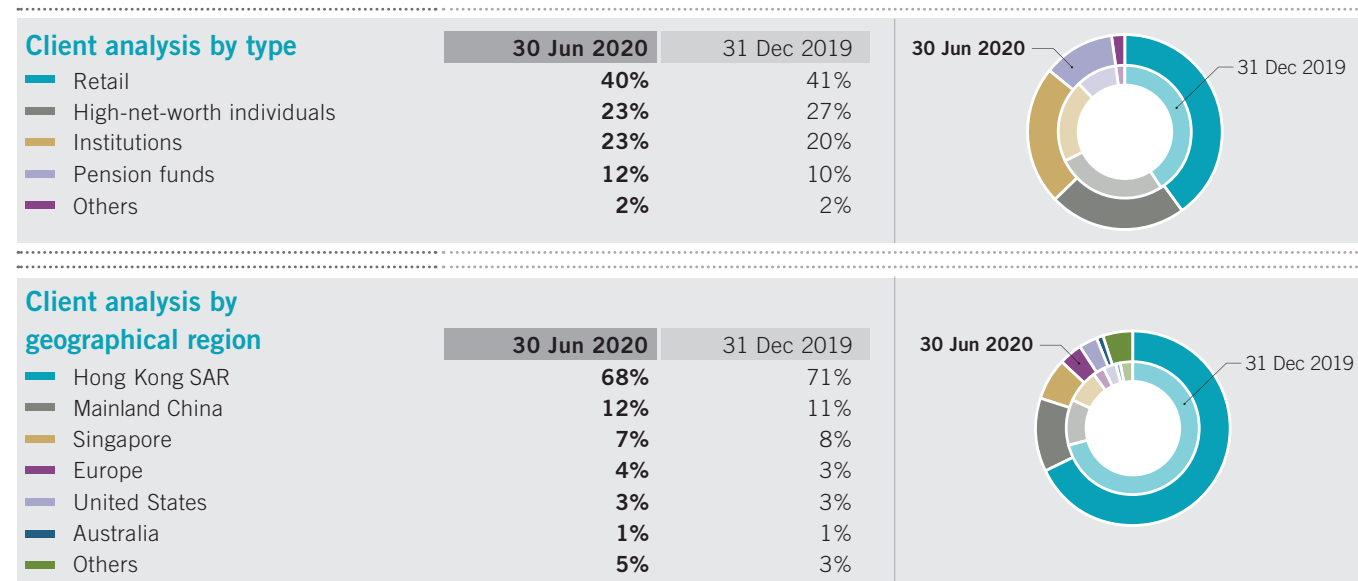
AUM by category

The charts below show breakdowns of the Group's AUM as at 30 June 2020 using two classifiers: brand and strategy. Own Branded Funds (80%) remained the biggest contributor to the Group's AUM by brand amid our expansion in the distribution network. By strategy, Absolute Return Long-biased Funds (58%) continued to represent the largest share of the Group's AUM, followed by Fixed Income Funds (38%), where the majority of AUM was contributed by the Value Partners Greater China High Yield Income Fund.



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 60% of total AUM (31 December 2019: 59%). Meanwhile, retail clients contributed 40% of total AUM (31 December 2019: 41%). In terms of geographic location, Hong Kong clients continued to be the largest segment, contributing 68% of the Group's AUM (31 December 2019: 71%). There was a rise in the share of AUM attributable to clients in mainland China, which increased to 12% (31 December 2019: 11%) as the Group's China and related business saw steady growth in the first half of 2020. The share of AUM contributed by clients in Singapore slightly decreased to 7% (31 December 2019: 8%), while clients from the United States and Europe took up a combined 7% (31 December 2019: 6%).

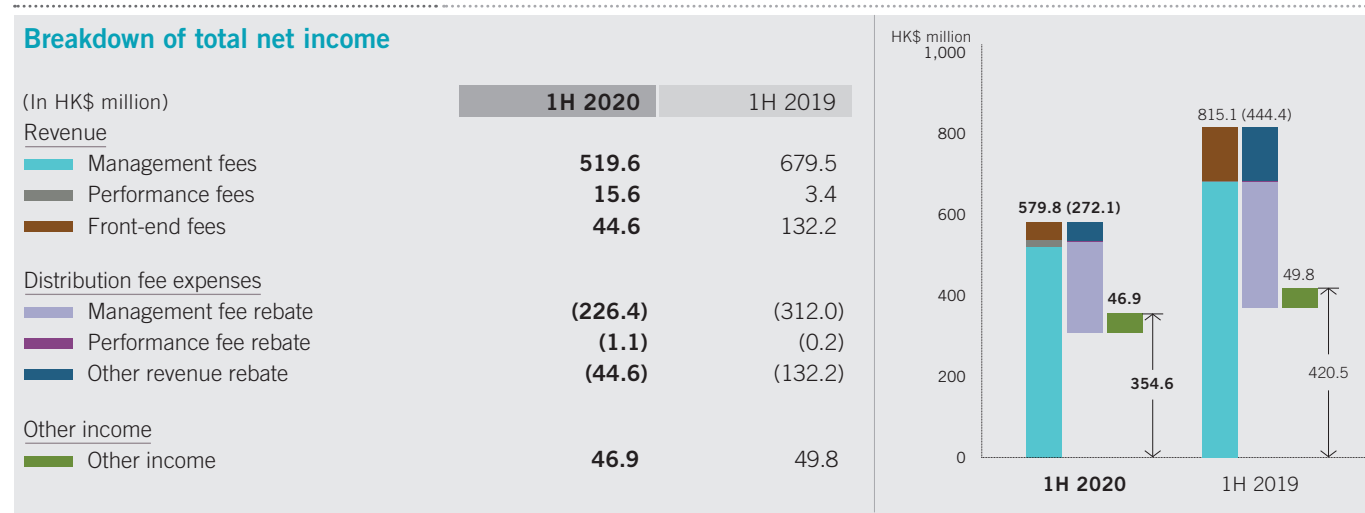


Summary of results

Key financial highlights for the reporting period are as follows:

(In HK\$ million)	1H 2020	1H 2019	% Change
Total revenue	579.8	815.1	-28.9%
Gross management fees	519.6	679.5	-23.5%
Gross performance fees	15.6	3.4	+358.8%
Operating profit (before other gains)	114.7	162.0	-29.2%
Profit attributable to owners of the Company	125.5	250.9	-50.0%
Basic earnings per share (HK cents)	6.8	13.5	-49.6%
Diluted earnings per share (HK cents)	6.8	13.5	-49.6%
Interim dividend per share	Nil	Nil	

Revenue and fee margin



The Group's profit attributable to owners of the Company decreased to HK\$125.5 million for the six months ended 30 June 2020 (1H 2019: HK\$250.9 million). Gross management fees, the Group's largest revenue contributor, dropped 23.5% to HK\$519.6 million (1H 2019: HK\$679.5 million) on a 26.1% decrease in the Group's average AUM to US\$12,599 million (1H 2019: US\$17,048 million).

During the period, our annualized gross management fee margin increased to 108 basis points (1H 2019: 103 basis points) due to the increase in the AUM portion on own branded funds compared to the first half of 2019, which have relatively higher margins. Our annualized net management fee margin was widened to 61 basis points (1H 2019: 57 basis points), while our management fee rebates for distribution channels decreased to HK\$226.4 million (1H 2019: HK\$312.0 million).

Gross performance fees, another source of revenue, increased to HK\$15.6 million (1H 2019: HK\$3.4 million). Performance fees are generated when eligible funds, at their performance fee crystallization dates, report returns exceeding their high watermarks for the respective period up to the crystallization date.

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, dividend income and rental and other income mainly from an investment property, totaled HK\$46.9 million (1H 2019: HK\$49.8 million). The change was mainly due to the drop in interest income to HK\$30.0 million (1H 2019: HK\$32.2 million) and dividend income to HK\$7.2 million (1H 2019: HK\$7.8 million).

Other gains – net

(In HK\$ million)	1H 2020	1H 2019
Net gains on investments	29.8	101.5
Fair value gain of an investment property	–	6.3
Gains on disposal of property, plant and equipment	–	0.5
Net foreign exchange losses	(6.8)	(0.9)
Other gains – net	23.0	107.4

Other gains 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 are made by the Group to provide capital that was considered necessary to new funds during the initial phase of fund launches. The Group also invests in its own funds alongside investors, where appropriate, for better alignment of interests and investment returns.

Investment in joint ventures

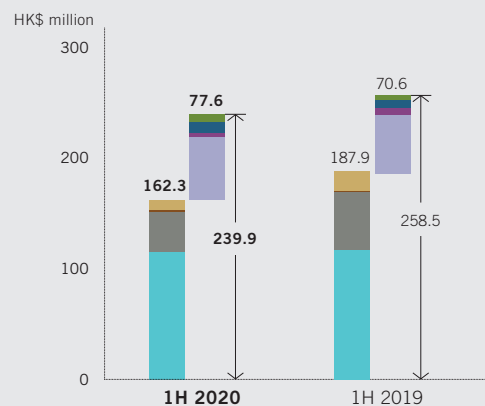
Investment in joint ventures represents the Group's 50% equity interest in Value Investing Group Company Limited, Clear Miles Hong Kong Limited and VP-ZACD Holdings Pte. Ltd.. Value Investing Group Company Limited has trust beneficiary interests in three Japanese logistics centers, while Clear Miles Hong Kong Limited has 100% indirect interest in an Australian industrial property. The Group's share of gains amounted to HK\$10.1 million (1H 2019: HK\$11.4 million), which was attributable to the rental income for the six months ended 30 June 2020.

Cost management

Breakdown of total expenses

(In HK\$ million)

	1H 2020	1H 2019
Compensation and benefit expenses		
Fixed salaries and staff benefits	115.2	117.2
Management bonus	36.1	51.6
Staff rebates	2.7	1.6
Share-based compensation expenses	8.3	17.5
Other expenses		
Other fixed operating costs	56.7	52.6
Sales and marketing	3.9	7.0
Depreciation excluding depreciation of right-of-use assets – properties	10.3	7.3
Non-recurring expenses	6.7	3.7



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. For the current period, the Group reported a fixed cost coverage ratio of 1.7 times (1H 2019: 2.2 times). With the potential challenges in mind, we are well prepared for the future with ways such as resource realignment and ongoing cost control measures to ensure our ability to navigate the upcoming headwinds and to undergo the strategic development projects in the pipeline.

Compensation and benefit expenses

During the period, fixed salaries and staff benefits slightly decreased by HK\$2.0 million to HK\$115.2 million (1H 2019: HK\$117.2 million).

As part of its compensation policy, the Group distributes 20% to 23% of its annual net profit pool as a management bonus to employees. The management bonus for the first half of 2020 totaled HK\$36.1 million (1H 2019: HK\$51.6 million). The profit pool is calculated by deducting certain adjustments from net profit before the 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\$2.7 million (1H 2019: HK\$1.6 million).

During the period, the Group recorded expenses of HK\$8.3 million (1H 2019: HK\$17.5 million), which were related 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\$56.7 million for the period (1H 2019: HK\$52.6 million), while sales and marketing expenses decreased to HK\$3.9 million (1H 2019: HK\$7.0 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 2020, the Group's balance sheet and cash flow positions remained strong, with a net cash balance of HK\$1,810.4 million. Net cash inflows from operating activities amounted to HK\$15.3 million, while the Group had no corporate bank borrowings and did not pledge any assets as collateral for overdrafts or other loan facilities. The Group's debt-to-equity ratio, measured by interest bearing external borrowings (excluding borrowings by investment funds where the Group has a controlling interest) divided by shareholders' equity, was zero, while its current ratio (current assets divided by current liabilities) was 8.4 times.

Capital structure

As at 30 June 2020, the Group's shareholders' equity and total number of shares issued were HK\$4,103.8 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. *Annual calendar returns of Value Partners Greater China High Yield Income Fund (Class P Acc USD) over the past five years: 2015: +6.1%; 2016: +15.9%; 2017: +10.1%; 2018: -4.9%; 2019: +9.4%; 2020 (Year to date as at 30 June): -6.8%.*
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. *Annual calendar returns of Value Partners Classic Fund (A Units) over the past five years: 2015: -1.5%; 2016: -3.2%; 2017: +44.9%; 2018: -23.1%; 2019: +32.4%; 2020 (Year to date as at 30 June): +0.2%.*
5. *Annual calendar returns of Value Partners High-Dividend Stocks Fund (Class A1) over the past five years: 2015: -3.7%; 2016: -0.2%; 2017: +32.9%; 2018: -14.2%; 2019: +14.9%; 2020 (Year to date as at 30 June): -11.9%.*

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 2020 (six months ended 30 June 2019: Nil).

Foreign exchange

Except for its Renminbi-denominated bank deposits, which has a balance of around HK\$153.7 million as at 30 June 2020 (30 June 2019: HK\$154.1 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 2020, the Group employed 173 staff (30 June 2019: 181) in Hong Kong SAR, 35 staff (30 June 2019: 23) in Shanghai, 6 staff (30 June 2019: 7) in Shenzhen, 4 staff (30 June 2019: 5) in Singapore, 2 staff (30 June 2019: 3) in London and 6 staff (30 June 2019: 6) in Malaysia. Remuneration packages that take into account of business performance, market practices and competitive market conditions are offered to employees in compensation for their contributions. In line with the Group's emphasis on recognition for performance and human capital retention, the Group rewards its employees with year-end discretionary bonus which is linked to the Group's level of profits for that financial year.

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 2020.

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 2020.

Independent review of interim results

The unaudited interim results of the Group for the six months ended 30 June 2020 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 2020.

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 2020.

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

Hong Kong, 13 August 2020

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