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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 2013

FINANCIAL HIGHLIGHTS

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

(In HK\$ million)	For the period ended 30 June		
	2013	2012	% Change
Total revenue	358.6	266.6	+34.5%
Gross management fees	291.0	228.3	+27.5%
Gross performance fees	15.4	0.9	+1,611.1%
Operating profit (before other gains/losses)	126.1	88.8	+42.0%
Profit attributable to equity holders of the Company	3.3	88.2	-96.3%
Basic earnings per share (HK cents)	0.2	5.0	-96.0%
Diluted earnings per share (HK cents)	0.2	5.0	-96.0%
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 consolidated results of the Company and its subsidiaries (the “Group”) for the period ended 30 June 2013 together with respective comparative figures. The following financial information, including the comparative figures, has been prepared in accordance with Hong Kong Financial Reporting Standards (the “HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2013

		Six months ended 30 June	
	Note	2013 HK\$'000 Unaudited	2012 HK\$'000 Unaudited
Income			
Fee income	2	358,643	266,577
Distribution and advisory fee expenses		(120,446)	(86,438)
Net fee income		238,197	180,139
Other income		25,794	25,437
Total net income		263,991	205,576
Expenses			
Share-based compensation		(4,176)	(803)
Other compensation and benefit expenses		(92,091)	(75,268)
Operating lease rentals		(6,656)	(6,466)
Other expenses		(34,928)	(34,221)
Total expenses		(137,851)	(116,758)
Operating profit (before other gains/losses)		126,140	88,818
Changes in fair value of investment properties		4,000	15,000
Net (losses)/gains on investments		(84,007)	611
Net losses on investments held-for-sale		(17,854)	—
Net foreign exchange losses		(1,666)	(1,250)
Other (losses)/gains – net	3	(99,527)	14,361
Operating profit (after other gains/losses)		26,613	103,179
Share of loss of an associate		(5,981)	(4,505)
Profit before tax		20,632	98,674
Tax expense	4	(19,170)	(14,700)
Profit for the period		1,462	83,974
Other comprehensive loss for the period			
Fair value losses on available-for-sale financial assets		(16,068)	(170)
Foreign exchange translation		2,370	(2,192)
Other comprehensive loss for the period	5	(13,698)	(2,362)
Total comprehensive (loss)/income for the period		(12,236)	81,612
Profit attributable to			
Equity holders of the Company		3,348	88,158
Non-controlling interests		(1,886)	(4,184)
		1,462	83,974
Total comprehensive (loss)/income for the period attributable to			
Equity holders of the Company		(9,646)	85,726
Non-controlling interests		(2,590)	(4,114)
		(12,236)	81,612
Earnings per share for profit attributable to equity holders of the Company (HK cents per share)			
– basic	6	0.2	5.0
– diluted	6	0.2	5.0

CONSOLIDATED BALANCE SHEET

As at 30 June 2013

	<i>Note</i>	30 June 2013 HK\$'000 Unaudited	31 December 2012 HK\$'000 Audited
Non-current assets			
Property, plant and equipment		6,139	7,747
Intangible assets		54,899	54,404
Investment properties		106,000	102,000
Investment in an associate		84,963	90,944
Deferred tax assets		391	399
Investments	8	692,796	953,135
Other assets		8,741	13,987
Loan portfolio, net		70,102	8,024
		1,024,031	1,230,640
Current assets			
Investments	8	151,063	240,862
Investments held-for-sale	9	422,044	245,899
Fees receivable	10	83,299	179,067
Loan portfolio, net		6,625	337
Amounts receivable on sale of investments		13,437	164,224
Prepayments and other receivables		26,033	33,473
Cash and cash equivalents	11	822,881	888,090
		1,525,382	1,751,952
Current liabilities			
Accrued bonus		31,187	68,243
Distribution fee expenses payable	12	38,172	28,915
Amounts payable on purchase of investments		–	135,033
Other payables and accrued expenses		18,434	17,870
Current tax liabilities		32,878	15,353
		120,671	265,414
Net current assets		1,404,711	1,486,538
Net assets		2,428,742	2,717,178
Equity			
Capital and reserves attributable to equity holders of the Company			
Issued equity	13	889,213	889,213
Other reserves		173,291	181,653
Retained earnings		–	280,832
– proposed dividends	7	–	–
– others		1,284,075	1,280,727
		2,346,579	2,632,425
Non-controlling interests		82,163	84,753
Total equity		2,428,742	2,717,178

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The condensed consolidated interim financial information for the six months ended 30 June 2013 has been prepared in accordance with HKAS 34 “Interim Financial Reporting”. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2012, which have been prepared in accordance with Hong Kong Financial Reporting Standards (the “HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants.

New standards adopted by the Group:

- HKAS 1 (amendment) “Presentation of Financial Statements” (effective from 1 January 2013)
- HKAS 28 (revised 2011) “Investments in Associates and Joint Ventures” (effective from 1 January 2013)
- HKFRS 10 “Consolidated Financial Statements” (effective from 1 January 2013)
- HKFRS 12 “Disclosures of Interests in Other Entities” (effective from 1 January 2013)
- HKFRS 13 “Fair Value Measurement” (effective from 1 January 2013)

New standards issued but are not yet effective for the financial year beginning 1 January 2013 and have not been early adopted:

- HKFRS 9 “Financial Instruments” (effective from 1 January 2015)

2. TURNOVER AND REVENUE

Turnover and revenue consist of fees from investment management activities and fund distribution activities, and interest and fee income from loan portfolio.

	Six months ended 30 June	
	2013	2012
	HK\$'000	HK\$'000
	Unaudited	Unaudited
Management fees	291,015	228,302
Performance fees	15,381	905
Front-end fees	47,329	37,370
Total fee income	353,725	266,577
Interest income from loan portfolio	4,529	—
Fee income from loan portfolio	389	—
Total turnover and revenue	358,643	266,577

3. OTHER (LOSSES)/GAINS – NET

	Six months ended 30 June	
	2013	2012
	HK\$'000	HK\$'000
	Unaudited	Unaudited
Changes in fair value of investment properties	4,000	15,000
Net (losses)/gains on investments		
Gains on financial assets at fair value through profit or loss	51,887	27,876
Losses on financial assets at fair value through profit or loss	(136,786)	(27,265)
Gains on disposal of available-for-sale financial assets	1,075	—
Losses on disposal of available-for-sale financial assets	(183)	—
Losses on investments held-for-sale	(17,854)	—
Net foreign exchange losses	(1,666)	(1,250)
Total other (losses)/gains – net	(99,527)	14,361

4. TAX EXPENSE

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

Hong Kong profits tax has been provided on the estimated assessable profit for the six months ended 30 June 2013 at the rate of 16.5% (2012: 16.5%).

	Six months ended 30 June	
	2013	2012
	HK\$'000	HK\$'000
	Unaudited	Unaudited
Current tax		
Hong Kong profits tax	18,239	14,574
Overseas tax	1,017	229
Adjustments in respect of prior years	—	(299)
Total current tax	19,256	14,504
Deferred tax		
Origination and reversal of temporary differences	(86)	196
Total tax expense	19,170	14,700

5. OTHER COMPREHENSIVE LOSS

	Six months ended 30 June	
	2013	2012
	HK\$'000	HK\$'000
	Unaudited	Unaudited
<i>Items that may be subsequently reclassified to profit or loss:</i>		
Available-for-sale financial assets		
Fair value losses during the period	(15,093)	(170)
Reclassification adjustments for gains included in profit or loss	(975)	—
Fair value losses on available-for-sale financial assets	(16,068)	(170)
Foreign exchange translation	2,370	(2,192)
Total other comprehensive loss	(13,698)	(2,362)

6. EARNINGS PER SHARE

The calculations of basic and diluted earnings per share are based on the profit attributable to equity holders of the Company of HK\$3,348,000 (2012: HK\$88,158,000).

The basic earnings per share is based on the weighted average number of shares in issue during the period of 1,755,202,800 (2012: 1,755,202,800). The diluted earnings per share is calculated by adjusting the weighted average number of shares in issue during the period of 1,755,202,800 (2012: 1,755,202,800) by 3,688,083 (2012: 2,968,151) to assume conversion of all dilutive potential ordinary shares granted under the Company's share option scheme.

7. DIVIDENDS

Dividends declared by the Company of HK\$280,832,000 are related to the year ended 31 December 2012 and were paid on 29 May 2013. No interim dividend was proposed by the Board of Directors for the six months ended 30 June 2013 (2012: Nil).

8. INVESTMENTS

Investments include the following:

	Financial assets at fair value through profit or loss		Available-for-sale financial assets		Total	
	30 June 2013 HK\$'000 Unaudited	31 December 2012 HK\$'000 Audited	30 June 2013 HK\$'000 Unaudited	31 December 2012 HK\$'000 Audited	30 June 2013 HK\$'000 Unaudited	31 December 2012 HK\$'000 Audited
Listed securities (by place of listing)						
Debt securities – Hong Kong	–	–	9,690	2,477	9,690	2,477
Debt securities – Singapore	–	–	248,684	229,089	248,684	229,089
Investment funds – Hong Kong	263,301	368,292	–	–	263,301	368,292
Market value of listed securities	263,301	368,292	258,374	231,566	521,675	599,858
Unlisted securities (by place of incorporation/establishment)						
Debt securities – China	–	–	–	86,422	–	86,422
Equity securities – Singapore	–	–	2,454	5,649	2,454	5,649
Investment funds – Australia	16,345	18,358	–	–	16,345	18,358
Investment funds – Cayman Islands	286,701	471,088	–	–	286,701	471,088
Investment funds – Taiwan	3,188	–	–	–	3,188	–
Investment funds – United States	245	263	13,251	12,359	13,496	12,622
Fair value of unlisted securities	306,479	489,709	15,705	104,430	322,184	594,139
Total investments	569,780	858,001	274,079	335,996	843,859	1,193,997
Representing:						
Non-current	470,031	703,561	222,765	249,574	692,796	953,135
Current	99,749	154,440	51,314	86,422	151,063	240,862
Total investments	569,780	858,001	274,079	335,996	843,859	1,193,997

9. INVESTMENTS HELD-FOR-SALE

The Group classified the following interests in investment funds as held-for-sale as the Group intended to dispose of these investments as soon as practically possible.

	Fair Value	
	30 June 2013 HK\$'000 Unaudited	31 December 2012 HK\$'000 Audited
Investment funds – Cayman Islands	312,338	133,262
Investment funds – Ireland	83,498	85,638
Investment funds – Taiwan	26,208	26,999
Total investments held-for-sale	422,044	245,899

As at 30 June 2013 and 31 December 2012, the major assets of the above investment funds were securities.

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 2013 HK\$'000 Unaudited	31 December 2012 HK\$'000 Audited
Fees receivable that were past due but not impaired		
1 – 30 days	1,027	692
31 – 60 days	140	–
61 – 90 days	231	483
	<u>1,398</u>	<u>1,175</u>
Fees receivable that were within credit period	81,901	177,892
Total fees receivable	<u>83,299</u>	<u>179,067</u>

11. CASH AND CASH EQUIVALENTS

	30 June 2013 HK\$'000 Unaudited	31 December 2012 HK\$'000 Audited
Cash at banks and in hand	214,934	207,709
Short-term bank deposits	586,733	671,940
Deposits with brokers	21,214	8,441
Total cash and cash equivalents	<u>822,881</u>	<u>888,090</u>

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 2013 HK\$'000 Unaudited	31 December 2012 HK\$'000 Audited
0 – 30 days	37,663	28,610
31 – 60 days	135	136
Over 90 days	374	169
Total distribution fee expenses payable	<u>38,172</u>	<u>28,915</u>

13. ISSUED EQUITY

	Number of shares	Issued equity HK\$'000
Unaudited		
As at 1 January 2012, 30 June 2012, 1 January 2013 and 30 June 2013	<u>1,755,202,800</u>	<u>889,213</u>

REPORT OF THE CHIEF EXECUTIVE OFFICER

Robust business despite net profit decline

Global financial markets saw drastic movements across asset classes and geographies in the first half of 2013. In Hong Kong, the asset management industry – which concluded last year on a relative positive note with a record high of HK\$12 trillion assets – saw strong sales in the first six months.

In a period when markets were driven by monetary policy, the Group still managed to achieve a strong net inflow of US\$553 million (1H 2012: US\$71 million) in assets under management (“AUM”), which stood at US\$8.6 billion as of the end of June (up from US\$8.5 billion at the end of 2012).

Profit attributable to our equity holders recorded a substantial decline of 96.3% to HK\$3.3 million in the period, compared with HK\$88.2 million in the prior year. The decrease is driven mostly by the net fair value losses of the Group’s seed capital investments and investments in our own funds, which shrunk with the market pullback by the end of the review period. Seed capital investments are made by the Group to seed certain amount of capital to new funds which is considered necessary during the initial fund launch phase. The Group also invests further into its own funds side by side with investors where appropriate, for better alignment of interest and investment returns. During the review period, aggregate losses on investments amounted to HK\$101.8 million, but by the end of July 2013, we already recouped HK\$36.7 million that had been lost.

Excluding the net fair value losses, the Group’s fund management business remained robust with an increase of 42.0% in its operating profit (before other gains/losses)¹, which rose to HK\$126.1 million in the period from HK\$88.8 million in the first six months last year. In the first half of this year, the Group generated a net cash inflow of HK\$126.9 million from operating activities.

In fact, we saw improving performance in terms of (1) revenue, which grew 34.5% compared with the prior year (1H 2013: HK\$358.6 million; 1H 2012: HK\$266.6 million); (2) gross management fees, which climbed 27.5% (1H 2013: HK\$291.0 million; 1H 2012: HK\$228.3 million), as a result of an increase in average AUM; and (3) gross performance fees, which shot up 1,611.1% (1H 2013: HK\$15.4 million; 1H 2012: HK\$0.9 million), due to certain funds having surpassed their respective high watermarks².

We even managed to drive up our net management fee margin (1H 2013: 62 basis points; 1H 2012: 61 basis points), thanks to greater inflow into our own branded products with which we enjoy a higher profit margin. As a result of our prudent cost control, operating expenses (excluding management bonus and options) stayed flat in the period. We are confident that our stringent cost management and intensive business initiatives will bring about sustained growth for the Group’s business.

Building on strategic platform

The Group’s strategic direction set over the past years has laid the foundation for sustained and solid business growth. In the Hong Kong market, Value Partners was amongst the top 5 market leaders in *Financial Times*’ quarterly industry review on funds, in terms of net sales in the first quarter of 2013. (Note: the ranking for the second quarter this year will be released in late August 2013.) The Group’s high ranking on the list, which was rounded off by top-tier global players, attests to our strong standing in the Hong Kong fund landscape.

Highlights for first half of 2013

- Our High-Dividend Stocks Fund, designed to capture strong dividend plays across Asia Pacific, drew the largest amount of net subscriptions (US\$309 million) for the Group in the period – across channels including retail banks, insurance companies via investment-linked assurance products (ILAS) and private banks in the region.
- Our Greater China High Yield Income Fund – newly authorized by the Securities and Futures Commission (“SFC”) of Hong Kong for offering to the general public in the city³ – benefited from its market position as the only public fund focused on the Greater China high yield bond space. It had an attractive yield-to-maturity and had been popular among private banking clients, drawing US\$177 million net inflow in the period. With its authorization in June, we believe the fund will see greater success in the retail market.
- For our equity funds, our China Convergence Fund (which invests in the A-, B- and H-share markets) and China Greenchip Fund (which focuses on small- and mid-cap stocks in Greater China) have gained ground in different channels. The two funds saw significant net inflows from a diverse range of channels, including retail banks, insurance companies (via ILAS) and private banks, totaling US\$122 million.
- The Mandatory Provident Fund (“MPF”, Hong Kong’s retirement scheme covering the working population) product we manage for a leading scheme provider in the field continued to see a steady net inflow of over US\$60 million in the first half of this year. The fund’s AUM amounted to US\$2.1 billion as of the end of the review period, continuing its lead as the largest fund across all active MPF fund categories.
- Leveraging the US\$100 million Qualified Foreign Institutional Investor (“QFII”) quota we received by the end of 2012, we launched in March this year an A-share product⁴ primarily for institutional investors, which proved popular and was over-subscribed. The QFII quota we received have also been used for A-share investments in our various funds.
- Our Taiwan joint venture, Value Partners Concord Asset Management Company Limited (“VP Concord”), is strategically positioned as an expert on the Island specializing in Greater China investments including RMB and A-share products. A new Greater China absolute return equity fund⁴ launched in February saw a net inflow of US\$44 million in the period.
- Also in February, we launched a Qualified Domestic Institutional Investor (“QDII”) product⁴ for private investors, in partnership with China Merchant Bank for distribution. The fund amassed RMB209 million (US\$33 million) in the initial subscription period. Similar initiatives seeking to capitalize on cross-broader fund flows are already in progress.

China development initiatives

As China restructures its economic model for a more balanced and sustainable development, we see arising opportunities for the asset management industry. China has already begun its liberalization in the financial system, starting with its interest rate as announced in July. In the years ahead, deregulation and liberalization are expected to be the key themes. While the process will take some time, we believe the China fund market will benefit as the country opens up, and asset managers who are able to ride on this tide can capture the best opportunities.

Against this backdrop, we have been strategically positioning ourselves to capture capital outflows from China, and expand our management of the mainland's domestic wealth. We have also been broadening our product offerings across asset classes and geographies, and we have started collaborating with various top-tier mainland distributors to offer more products. We have also been in discussion with mainland institutional investors seeking to capture business in the segment.

Consumer finance business

For Chengdu Vision Credit Limited ("Vision Credit"), our joint venture operating small loan business in the city, the loan balance outstanding was around HK\$77 million by the end of the review period. Focusing on the white collar, small-business entrepreneurs and small- and medium-size enterprises, Vision Credit has a healthy loan quality. Having been in operation for almost a year, Vision Credit is expected to gather pace in its business development going forward.

Awards and recognition

On our way to becoming the Temple of Value Investing in Asia, Value Partners continues to receive more recognition. In the 2013 Hedge Fund 100 ranking released in May by *Institutional Investor*, Value Partners was ranked the 62nd globally by AUM as of 2 January 2013, while taking the top spot in Asia. Meanwhile, our High-Dividend Stocks Fund made it to the Best 100 Hedge Funds⁵, compiled by the respected magazine *Barron's* and announced in May.

In the 2013 Lipper Fund Awards Hong Kong, our China Greenchip Fund and Chinese Mainland Focus Fund were named winners in the Greater China Equity (5 Years) and China Equity (5 Years) categories⁶. The recognition attests once again to the funds' superior long-term performance.

We are pleased to report that our Chairman and Co-Chief Investment Officer, Mr. Cheah Cheng Hye, has been appointed by the Hong Kong government as a member of the New Business Committee of the Financial Services Development Council, which focuses on studying ways to further develop the financial services industry in Hong Kong. Adding further to his lists of awards and accolades, Mr. Cheah received in June an Honorary Fellowship from the Hong Kong University of Science and Technology for his contribution to the university and society at large.

Appreciation

Finally, we would like to thank our diligent team for their dedication and pursuit of performance excellence. We also extend our appreciation to our investors, business partners and shareholders.

- 1 *Other gains/losses mainly include fair value changes and realized gains/losses on disposal of seed capital investments, investments in own funds and other investments; and net foreign exchange gains/losses.*
- 2 *High watermark refers to the point of peak historical value or benchmark index hurdles, beyond which the investment manager may be entitled to performance fees.*
- 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 *Not authorized by the SFC and not available for public distribution in Hong Kong.*
- 5 *A ranking based on three-year compound annual returns and a minimum fund size of US\$300 million as at December 2012. Value Partners High-Dividend Stocks Fund is not authorized as a hedge fund by the SFC in Hong Kong according to the Code on Unit Trusts and Mutual Funds. 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.*
- 6 *Based on data as of year-end 2012.*

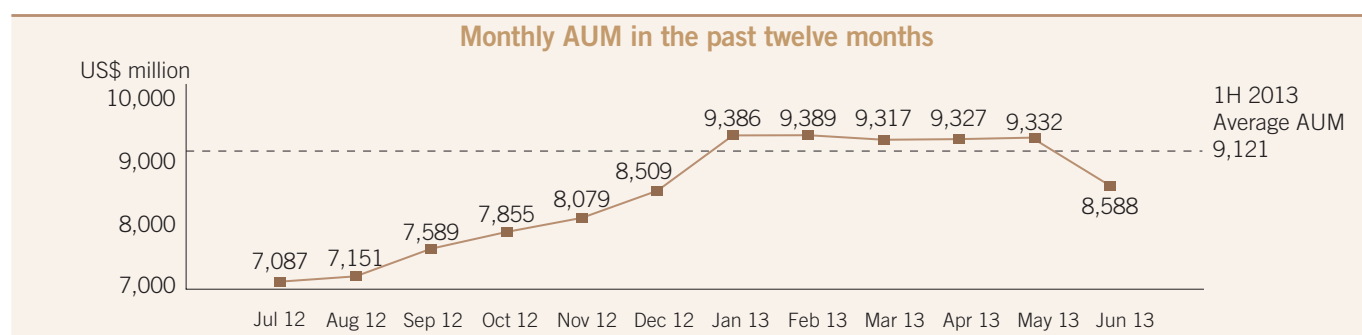
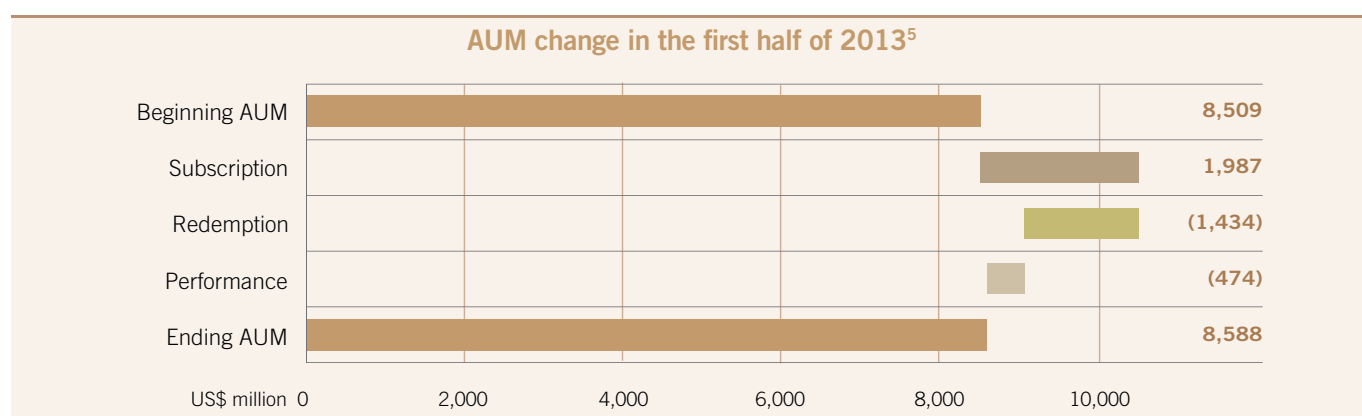
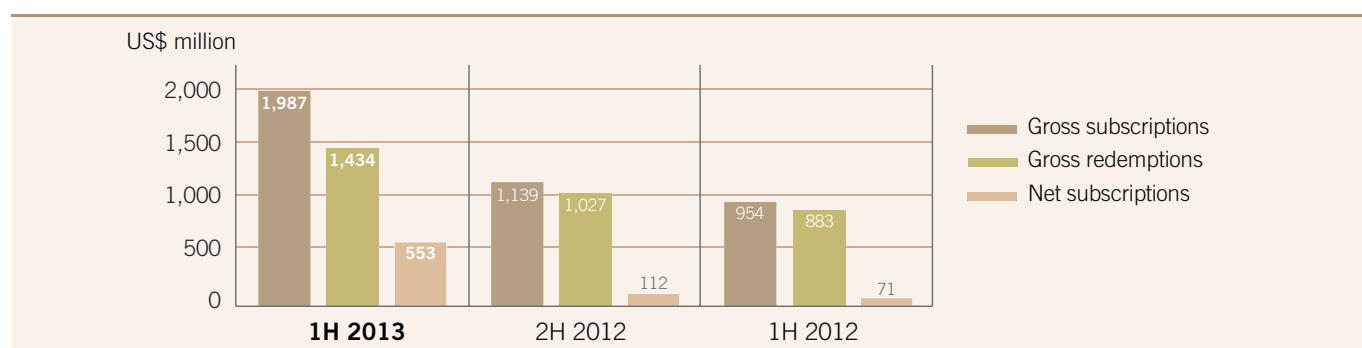
FINANCIAL REVIEW

Assets Under Management

AUM and return

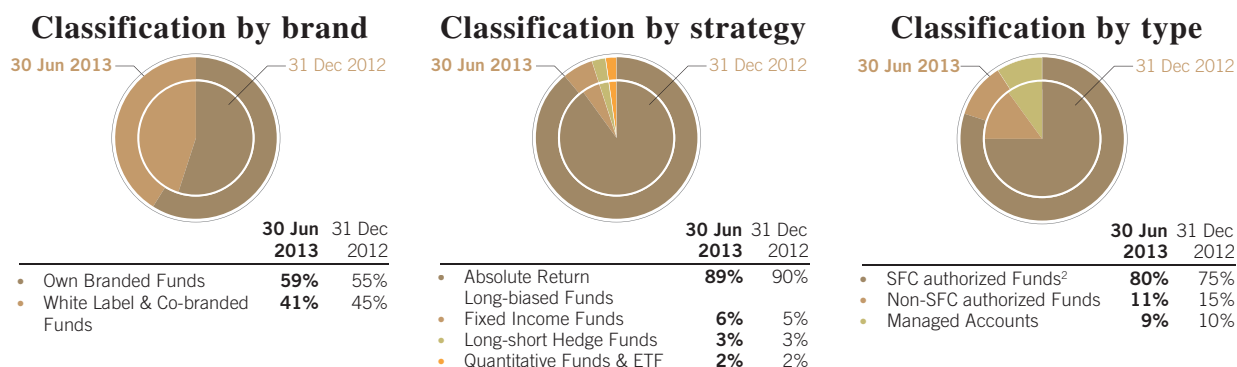
The Group's AUM amounted to US\$8,588 million at the end of June 2013 (31 December 2012: US\$8,509 million). The slight increase was mainly driven by the net subscriptions of US\$553 million, which was partially offset by the negative fund returns of US\$474 million recorded during the period. Our overall fund performance, as calculated in asset-weighted average return of funds under management, recorded a loss of 4.7% in the first half of 2013. Value Partners High-Dividend Stocks Fund¹, the Group's second largest public fund² in Hong Kong, managed to stay resilient with a net gain of 0.6% in the six-month period, while Value Partners' flagship Classic Fund³ recorded a loss of 5.3% in the period.

Gross subscriptions in the first half of 2013 (US\$1,987 million) increased significantly from the first half of 2012 (US\$954 million). Gross redemptions in the period (US\$1,434 million)⁴ increased from the first half of 2012 (US\$883 million). All in all, we were able to achieve strong net subscriptions of US\$553 million (1H 2012: US\$71 million).



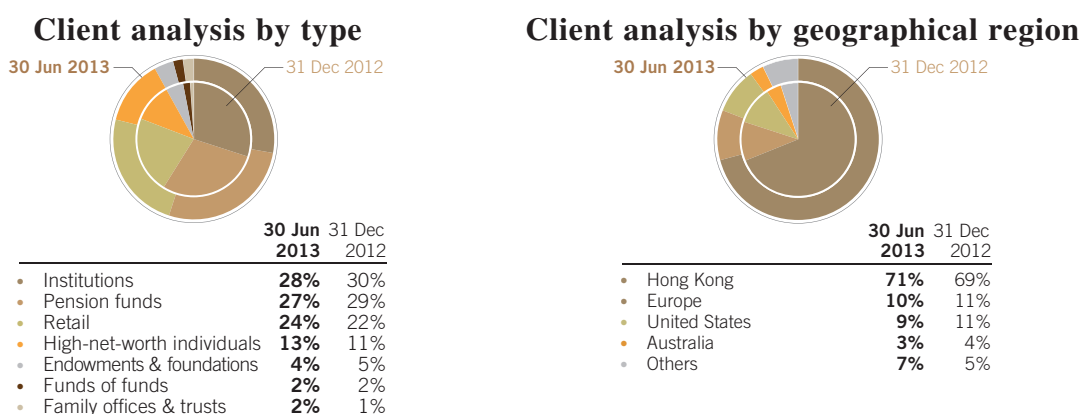
AUM by category

The charts below provide an analysis of the Group's AUM as at 30 June 2013 by three different classifications: brand, strategy and fund type. For the period under review, Own Branded Funds (59%) recorded an increase due to the higher funds inflow into our own branded products following the expansion of our distribution network. By strategy, our Absolute Return Long-biased Funds continued to represent the majority of our funds (89%), followed by our Fixed Income Funds (6%), with our Greater China High Yield Income Fund taking the largest share. In terms of fund type, Hong Kong Securities and Futures Commission ("SFC") authorized funds² (i.e. public funds in Hong Kong) maintained the largest portion of our AUM (80%).



Client base

Institutional clients – including institutions, pension funds, high-net-worth individuals (HNWs), endowments and foundations, funds of funds, and family offices and trusts – remained the Group's primary set of fund investors, accounting for 76% of our AUM. In particular, the increase in HNWs is attributable to the expanded business relationship with private banks in the region. The proportion of funds coming from retail investors increased to 24% of the AUM (31 December 2012: 22%). By geographical region, Hong Kong clients accounted for 71% of the Group's AUM (31 December 2012: 69%), while the percentage of clients in the United States and Europe was 19% (31 December 2012: 22%).



Summary of results

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

(In HK\$ million)	1H 2013	1H 2012	% Change
Total revenue	358.6	266.6	+34.5%
Gross management fees	291.0	228.3	+27.5%
Gross performance fees	15.4	0.9	+1,611.1%
Operating profit (before other gains/losses)	126.1	88.8	+42.0%
Profit attributable to equity holders of the Company	3.3	88.2	-96.3%
Basic earnings per share (HK cents)	0.2	5.0	-96.0%
Diluted earnings per share (HK cents)	0.2	5.0	-96.0%
Interim dividend per share (HK cents)	Nil	Nil	

Revenue and fee margin

Breakdown of total net income

(In HK\$ million)	1H 2013	1H 2012
Revenue	358.6	266.6
Management fees	291.0	228.3
Performance fees	15.4	0.9
Other revenue		
Front-end fees	47.3	37.4
Interest income from loan portfolio	4.5	–
Fee income from loan portfolio	0.4	–
Distribution and advisory fee expenses	(120.4)	(86.4)
Management fees rebate	(74.7)	(50.6)
Performance fees rebate	–	(0.0)
Front-end fees rebate	(45.7)	(35.8)
Other income	25.8	25.4
Total net income	264.0	205.6

The Group's total revenue increased by 34.5% to HK\$358.6 million for the six months ended 30 June 2013 (1H 2012: HK\$266.6 million). The major contribution to our revenue was gross management fees, which increased to HK\$291.0 million (1H 2012: HK\$228.3 million) as a result of a 20.3% increase in the Group's average AUM to US\$9,121 million (1H 2012: US\$7,580 million). With comparatively higher fund inflows from distribution channels into our Own Branded Funds, our annualized gross management fee margin increased to 83 basis points (1H 2012: 78 basis points). The distribution and advisory fee expenses paid to channels increased correspondingly by 39.4% to HK\$120.4 million (1H 2012: HK\$86.4 million), resulting in an increase of 1 basis point in annualized net management fee margin (1H 2013: 62 basis points; 1H 2012: 61 basis points).

Gross performance fees, another source of revenue, amounted to HK\$15.4 million, representing a HK\$14.5 million increase (1H 2012: HK\$0.9 million). During the period under review, performance fees were generated from funds with performances that had exceeded their benchmark returns for the respective periods ended or high watermarks, at the dates of their performance fee crystallization. Since the performance fee crystallization for most of our major own branded funds is at the end of the year, the performance of our funds in the second half of the year would determine whether we can collect further performance fees in 2013.

Other revenue mainly includes front-end load, with a substantial amount of front-end load rebated to distribution channels, and such rebate is a usual market practice. Included in other revenue was also the interest and fee income from loan portfolio of HK\$4.9 million (1H 2012: nil) generated by our non-wholly owned subsidiary, which operates and develops the small loan business in Chengdu. The small loan business commenced in the second half of 2012.

Other income, which mainly comprised dividend income and interest income, slightly increased to HK\$25.8 million (1H 2012: HK\$25.4 million). Dividend income increased to HK\$7.0 million (1H 2012: HK\$2.5 million), while interest income decreased to HK\$17.6 million (1H 2012: HK\$21.7 million) due to the drop in the bank deposits and interest-bearing bonds investments.

Other gains and losses

Breakdown of other (losses)/gains – net

(In HK\$ million)	1H 2013	1H 2012
Changes in fair value of investment properties	4.0	15.0
Net (losses)/gains on investments	(84.0)	0.6
Net losses on investments held-for-sale	(17.8)	–
Net foreign exchange losses	(1.7)	(1.2)
Other (losses)/gains – net	(99.5)	14.4

Other gains or losses mainly include fair value changes and realized gains or losses on disposal of seed capital investments, investment in own funds, debt securities and other investments; and net foreign exchange gains or losses. Seed capital investments are made by the Group to seed certain amount of capital to new funds which is considered necessary during the initial fund launch phase. The Group also invests further into its own funds side by side with investors where appropriate, for better alignment of interest and investment returns. During the review period, aggregate losses on investments amounted to HK\$101.8 million, but by the end of July 2013, we already recouped HK\$36.7 million that had been lost.

Cost management

Breakdown of total expenses

(In HK\$ million)	1H 2013	1H 2012
Compensation and benefit expenses	96.3	76.1
Fixed salaries and staff benefits	59.5	58.7
Management bonus	31.2	15.4
Staff rebates	1.4	1.2
Share based compensation expenses	4.2	0.8
Other expenses	41.6	40.7
Other fixed operating costs	26.9	28.3
Sales and marketing	9.5	7.7
Depreciation	2.9	2.9
Non-recurring expenses	2.3	1.8
Total expenses	137.9	116.8

The Group's management continued to exercise stringent cost discipline and aimed to keep fixed operating expenses well covered by its net management fee income, a relatively stable income source. We measure this objective with the "fixed cost coverage ratio", an indicator of how many times fixed operating expenses are covered by net management fee income. For the current period, the Group's fixed cost coverage (for asset management business) was 2.7 times.

Compensation and benefit expenses

Fixed salaries and staff benefits slightly increased by HK\$0.8 million to HK\$59.5 million (1H 2012: HK\$58.7 million). The increase was mainly attributable to the salary increment.

Management bonuses amounted to HK\$31.2 million for the current period (1H 2012: HK\$15.4 million). This is consistent with the Group's compensation policy, which distributes 20% to 23% of the net profit pool every year as a management bonus to employees. The net profit pool comprises net profit before management bonus and taxation, and after certain adjustments including cost of capital. This discretionary bonus promotes staff loyalty and performance, while aligning the interests of employees with those of shareholders.

Staff rebates increased to HK\$1.4 million (1H 2012: HK\$1.2 million). Staff are entitled to partial rebates of management fees and performance fees when investing in the funds managed by the Group.

The Group also recorded expenses of HK\$4.2 million relating to stock options granted to employees. This expense item had no impact on cash flow and is recognized in accordance with Hong Kong Financial Reporting Standards.

Other expenses

Other non-staff-related operating costs such as rent, legal & professional fees, investment research and other administrative and office expenses, amounted to HK\$26.9 million (1H 2012: HK\$28.3 million).

Sales and marketing expenses increased to HK\$9.5 million for the current period (1H 2012: HK\$7.7 million) as a result of increased spending on advertising and distributor sponsorship.

Non-recurring expenses mainly consisted of donations. The Group entered into a partnership with the Hong Kong University of Science and Technology ("HKUST") in 2011, and launched the "Value Partners Center for Investing at the HKUST Business School", for which the Group pledged a donation of up to HK\$10.0 million over five years and HK\$1.8 million was donated during the current period.

Dividends

The Group has been practising a more 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 once a year at the end of each financial year to better align them with the Group's full-year performance. Barring any unexpected changes in the market environment, we expect that a final dividend (but not interim dividend) will be declared this year.

Liquidity and financial resources

Fee income is the Group's main source of income, while other income sources include interest income generated from bank deposits and interest-bearing bonds investments, and dividend income from investments held. During the period, the Group's balance sheet and cash flow positions remained strong, with a net cash balance of HK\$822.9 million. Net cash inflows from operating activities amounted to HK\$126.9 million, and the Group had no bank borrowings and did not pledge any assets as collateral for overdrafts or other loan facilities. The debt-to-equity ratio (interest-bearing external borrowings divided by shareholders' equity) stood at zero, while the current ratio (current assets divided by current liabilities) came to 12.6 times.

Capital structure

As at 30 June 2013, the Group's shareholders' equity and total number of shares in issue for the Company stood at HK\$2,428.7 million and 1.76 billion, respectively.

- 1 *Performance of Value Partners High-Dividend Stocks Fund (Class A1) over past five years: 2008: -46.8%; 2009: +82.8%; 2010: +25.8%; 2011: -11.9%; 2012: +25.2%; 2013 (YTD as at 30 June 2013): +0.6%. Performance figures are calculated in US dollars on NAV to NAV, with dividends reinvested. Performance data is net of all fees.*
- 2 *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.*
- 3 *Performance of Value Partners Classic Fund (A Units) over past five years: 2008: -47.9%; 2009: +82.9%; 2010: +20.2%; 2011: -17.2%; 2012: +14.0%; 2013 (YTD as at 30 June 2013): -5.3%. Performance figures are calculated in US dollars on NAV to NAV, with dividends reinvested. Performance data is net of all fees.*
- 4 *Including cash distributions and return of capital which amounted to US\$20 million in the first half of 2013.*
- 5 *Excluding AUM of VP Goldstate, in which the Group holds an ownership interest of 49%.*

OTHER INFORMATION

Dividend

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2013 (six months ended 30 June 2012: nil).

Foreign Exchange

Except for its Renminbi-denominated bank deposit and loan portfolio in China, which has a balance of around HK\$385 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 2013, the Group employed a total of 116 staff (30 June 2012: 114) in Hong Kong and the research office in Shanghai, 23 staff (30 June 2012: 23) in Taiwan and 36 staff (30 June 2012: 10) in Chengdu. Competitive remuneration packages that take into account business performance, market practices and competitive market conditions are offered to employees in compensation for their contribution. In addition, share options are granted and discretionary bonuses are also given based on the Group's and individual staff's performances.

Purchase, Sale or Redemption of the Company's Securities

Neither the Company nor any of its subsidiaries have purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2013.

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 2013.

Independent Review of Interim Results

The unaudited interim results of the Group for the six months ended 30 June 2013 have been reviewed by PricewaterhouseCoopers, the Company's 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 2013.

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 2013.

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.com.hk). 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
TSE Wai Ming, Timothy, CFA
Chief Executive Officer and Executive Director

Hong Kong, 13 August 2013

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