

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



盛源控股有限公司

SHENG YUAN HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)
(Stock code: 851)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2017

The board of directors (the “**Directors**”, collectively referred to as the “**Board**”) of Sheng Yuan Holdings Limited (the “**Company**”) announces the unaudited consolidated results of the Company and its subsidiaries (the “**Group**”) for the six months ended 30 June 2017 together with the comparative figures for the corresponding period in 2016 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2017

		Six months ended 30 June	
		2017	2016
	Notes	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Revenue	4	32,593	34,795
Other gains and losses	5	(21,722)	(29,456)
Other income		56	2,021
Staff costs	6	(31,597)	(15,899)
Depreciation		(236)	(286)
Finance costs	6	(14,919)	(15,333)
Other expenses		(13,579)	(23,021)
Share of results of an associate		(29,148)	(3,294)
Impairment loss on interests in an associate	11	(41,911)	—
Loss before income tax	6	(120,463)	(50,473)
Income tax expense	7	(2,566)	(2,021)
Loss for the period		(123,029)	(52,494)

		Six months ended 30 June	
		2017	2016
	<i>Notes</i>	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Other comprehensive income			
<i>Item that may be reclassified subsequently to profit or loss</i>			
– Exchange differences on translation of financial statements of foreign operations		2,367	(1,677)
		<hr/>	<hr/>
Other comprehensive income for the period		2,367	(1,677)
		<hr/>	<hr/>
Total comprehensive income for the period		(120,662)	(54,171)
		<hr/> <hr/>	<hr/> <hr/>
Loss for the period attributable to:			
– Owners of the Company		(123,015)	(52,491)
– Non-controlling interests		(14)	(3)
		<hr/>	<hr/>
		(123,029)	(52,494)
		<hr/> <hr/>	<hr/> <hr/>
Total comprehensive income for the period attributable to:			
– Owners of the Company		(120,648)	(54,168)
– Non-controlling interests		(14)	(3)
		<hr/>	<hr/>
		(120,662)	(54,171)
		<hr/> <hr/>	<hr/> <hr/>
		<i>HK cents</i>	<i>HK cents</i>
Loss per share	9		
– Basic		(3.47)	(1.51)
		<hr/>	<hr/>
– Diluted		(3.47)	(1.51)
		<hr/> <hr/>	<hr/> <hr/>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

		30 June	31 December
		2017	2016
	<i>Notes</i>	HK\$'000	HK\$'000
		(Unaudited)	(Audited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	<i>10</i>	344	575
Trading rights		3,322	3,322
Goodwill		7,000	7,000
Interests in an associate	<i>11</i>	3,529	72,334
Other assets		1,705	1,730
Deferred tax asset		144	144
		<hr/> 16,044 <hr/>	<hr/> 85,105 <hr/>
Current assets			
Trade and other receivables and prepayments	<i>12</i>	69,582	31,970
Held for trading investments	<i>13</i>	68,826	232,157
Current tax assets		1,043	1,413
Trust bank balances held on behalf of clients		340,037	301,145
Cash and cash equivalents		92,631	126,461
		<hr/> 572,119 <hr/>	<hr/> 693,146 <hr/>
Current liabilities			
Trade and other payables and accruals	<i>14</i>	354,813	419,549
Borrowings		–	26,427
Convertible bonds		180,443	165,802
Current tax liabilities		2,230	34
		<hr/> 537,486 <hr/>	<hr/> 611,812 <hr/>
Net current assets		<hr/> 34,633 <hr/>	<hr/> 81,334 <hr/>
Net assets		<hr/> 50,677 <hr/> <hr/>	<hr/> 166,439 <hr/> <hr/>

	30 June	31 December
	2017	2016
<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
EQUITY		
Share capital	178,128	177,128
Reserves	(145,243)	(28,495)
	<hr/>	<hr/>
Equity attributable to owners of the Company	32,885	148,633
Non-controlling interests	17,792	17,806
	<hr/>	<hr/>
Total equity	50,677	166,439
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

1. GENERAL INFORMATION

Sheng Yuan Holdings Limited (the “**Company**”) is an exempted company with limited liability incorporated and domiciled in Bermuda. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and its principal place of business is Suites 4301-5, 43/F., Tower 1, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong. The Company’s shares are listed on The Stock Exchange of Hong Kong Limited (“**Stock Exchange**”).

The Company is an investment holding company. Its subsidiaries are principally engaged in provision of securities brokerage and financial services, asset management services, proprietary trading and trading business.

The condensed consolidated financial statements for the six months ended 30 June 2017 were approved for issue by the board of directors on 28 August 2017.

These condensed consolidated financial statements contains selected explanatory notes primarily an explanation of the events and changes that are significant to an understanding of the changes in financial position and performance of the Group since the end of the last annual reporting period and do not include all information and disclosures required in the annual financial statements.

2. ADOPTION OF NEW OR AMENDED HONG KONG FINANCIAL REPORTING STANDARDS (“**HKFRSs**”)

In the current period, the Group has applied the new standards, amendments and interpretations (the “**new HKFRSs**”) which are effective for the Group’s financial statements for the annual period beginning on 1 January 2017. HKFRSs include all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“**HKAS**”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”). The application of these new HKFRSs has had no impact on the disclosures or on the amounts recognised in the Group’s condensed consolidated financial statements. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in compliance with HKAS 34, Interim Financial Reporting issued by the HKICPA and with the applicable requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange. The accounting policies and methods of computation that have been used in the preparation of these condensed consolidated financial statements are consistent with those applied in the preparation of the Group's annual financial statements for the year ended 31 December 2016, except for the adoption of new HKFRSs.

As at 30 June 2017, the Group had convertible bonds with principal amount of approximately HK\$180 million (31 December 2016: HK\$180 million) due to be settled within 12 months from the reporting date and incurred losses of approximately HK\$123 million for the six months ended 30 June 2017 (year ended 31 December 2016: HK\$17 million). Cash and bank balances and net current assets have decreased to approximately HK\$93 million (31 December 2016: HK\$126 million) and HK\$35 million (31 December 2016: HK\$81 million), respectively.

Notwithstanding with the above conditions, the directors of the Company have assessed that there are no material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern as the Company had received conversion notices from a holder of convertible bonds with principal amount of approximately HK\$45 million. In addition, the Group shall continue to apply various measures to tighten its operating expenses. Based on the cashflow forecast prepared by management, the Group will generate positive cash flows from its existing operation and have sufficient working capital to finance its operations and financing obligations for at least the next twelve months from 30 June 2017. Accordingly, these financial statements were prepared on assumption that the Group can be operated as a going concern.

4. SEGMENT INFORMATION

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. The business components in the internal financial information reported to the executive directors are determined following the Group's major service lines as follows:

- (a) securities brokerage and financial services – provision of discretionary and non-discretionary dealing services for securities, securities placing and underwriting services, margin financing and money lending services, corporate finance advisory and general advisory services;
- (b) asset management services – provision of fund management and discretionary portfolio management and investment advisory services;
- (c) proprietary trading – investment holding and securities trading; and
- (d) trading business – trading of chemical products and energy and minerals products.

No operating segments identified have been aggregated in arriving at the reportable segments of the Group. Each of these operating segments is managed separately as each of the service lines requires different resources as well as marketing approaches.

	Securities brokerage and financial services <i>HK\$'000</i>	Asset management services <i>HK\$'000</i>	Proprietary trading <i>HK\$'000</i>	Trading business <i>HK\$'000</i>	Total <i>HK\$'000</i>
Six months ended 30 June 2017					
(Unaudited)					
Revenue					
From external customers	8,442	24,151	–	–	32,593
From other segments	–	248	–	–	248
Reportable segment revenue	8,442	24,399	–	–	32,841
Reportable segment result	1,422	11,807	(38,010)	(1,763)	(26,544)
30 June 2017 (Unaudited)					
Reportable segment assets	389,377	28,880	69,738	97	488,092
Reportable segment liabilities	353,256	469	302	23	354,050

	Securities brokerage and financial services <i>HK\$'000</i>	Asset management services <i>HK\$'000</i>	Proprietary trading <i>HK\$'000</i>	Trading business <i>HK\$'000</i>	Total <i>HK\$'000</i>
Six months ended 30 June 2016					
(Unaudited)					
Revenue					
From external customers	6,238	28,557	–	–	34,795
From other segments	–	98	–	–	98
Reportable segment revenue	6,238	28,655	–	–	34,893
Reportable segment result	(4,957)	11,220	(27,640)	(2,754)	(24,131)
31 December 2016 (Audited)					
Reportable segment assets	314,783	27,094	233,054	106	575,037
Reportable segment liabilities	343,451	12,982	73,033	17	429,483

The measurement policies the Group uses for reporting segment results under HKFRS 8 are the same as those used in its financial statements prepared under HKFRSs, except that changes in fair value of derivative financial instruments; other income (excluding dividend income); directors' emoluments; interest expenses on convertible bonds and loans from a shareholder; share of results of and impairment loss on interests in an associate accounted for using the equity method; income tax expense; and corporate income and expenses which are not directly attributable to the business activities of any operating segment are not included in arriving at the operating results of the operating segments. Common expenditures are allocated between operating segments based on proportion of segment revenue where necessary. Inter-segment revenue are charged on the expenses incurred by the relevant subsidiary plus certain percentage.

Segment assets include all assets but interests in an associate; current tax assets; deferred tax assets and bank balances of the Group. In addition, corporate assets which are not directly attributable to the business activities of any operating segment are not allocated to a segment, which primarily applies to the Group's headquarters. Segment liabilities include all liabilities but loans from a shareholder, convertible bonds and current tax liabilities. In addition, corporate liabilities which are not directly attributable to the business activities of any operating segment are not allocated to a segment.

The totals presented for the Group's operating segment result are reconciled to the Group's loss before income tax as follows:

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Reportable segment result	(26,544)	(24,131)
Changes in fair value of derivative financial instruments	–	(1,518)
Other income	56	21
Finance costs	(14,919)	(13,626)
Share of results of an associate	(29,148)	(3,294)
Impairment loss on interests in an associate	(41,911)	–
Corporate expenses**	(7,997)	(7,925)
	<hr/>	<hr/>
Group's loss before income tax	(120,463)	(50,473)
	<hr/> <hr/>	<hr/> <hr/>

** mainly staff costs, including directors' emoluments, minimum lease payments under operating leases in respect of land and buildings and other professional fees

5. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Changes in fair value of financial instruments classified as held for trading	(27,185)	(33,800)
Changes in net assets attributable to other holders of redeemable shares of a consolidated investment fund	–	(115)
Changes in third party interests in collective investment schemes	5,325	4,513
Reversal of impairment losses on trade receivables	59	–
Net foreign exchange gains/(losses)	81	(54)
Net losses on disposals of property, plant and equipment	(2)	–
	<hr/>	<hr/>
	(21,722)	(29,456)
	<hr/> <hr/>	<hr/> <hr/>

6. LOSS BEFORE INCOME TAX

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Loss before income tax is arrived at after charging:		
Finance costs		
– Effective interest on liability component of convertible bonds	14,641	13,431
– Interest on bank and other borrowings	2	1,707
– Interest on loans from a shareholder	276	195
	14,919	15,333
Staff costs, including directors' emoluments		
– Fees, salaries, allowances and bonuses	30,846	15,103
– Retirement benefit scheme contributions	751	796
	31,597	15,899

7. INCOME TAX EXPENSE

For the six months ended 30 June 2017 and 2016, Hong Kong profits tax was provided at the rate of 16.5% on the estimated assessable profits for the respective periods.

For the six months ended 30 June 2017 and 2016, no provision for Corporate Income Tax of the People's Republic of China ("PRC") has been made as the Group did not derive any assessable profits in the PRC for the respective periods.

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current tax – Hong Kong profits tax		
– Provision for current period	2,709	2,032
– Over provision in respect of prior periods	(143)	(11)
	2,566	2,021
Total income tax expense	2,566	2,021

8. DIVIDENDS

No dividend was proposed or paid during the six months ended 30 June 2017 and 2016, nor has any dividend been proposed since the end of the reporting periods.

9. LOSS PER SHARE

The calculation of basic loss per share is based on the loss attributable to owners of the Company of approximately HK\$123,015,000 (2016: loss of approximately HK\$52,491,000) and the weighted average number of 3,543,943,771 (2016: 3,486,892,226) ordinary shares in issue during the period. The diluted loss per share is the same as the basic loss per share because the calculation of the diluted loss per share does not assume the exercise of the outstanding share options and conversion rights attached to the convertible bonds since their exercise would result in a decrease in loss per share.

10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2017, the Group acquired property, plant and equipment with a cost of approximately HK\$18,000 (six months ended 30 June 2016: HK\$63,000). Property, plant and equipment with net carrying amount of approximately HK\$15,000 (six months ended 30 June 2016: HK\$4,000) were disposed of during the six months ended 30 June 2017.

11. INTERESTS IN AN ASSOCIATE

	30 June 2017 HK\$'000 (Unaudited)	31 December 2016 HK\$'000 (Audited)
Share of net assets	5,586	33,653
Goodwill	<u>39,854</u>	<u>38,681</u>
	45,440	72,334
Provision for impairment	<u>(41,911)</u>	–
	<u>3,529</u>	<u>72,334</u>

Particulars of the associate at 30 June 2017 are as follows:

Name	Country of incorporation	Particulars of paid-up capital	Percentage of interest held by the Group	Principal activities and place of operation
Xinhua (Daqing) Merchandise Exchange Company Limited (“XHME”)	PRC	RMB85,714,286	25.0*	Operation of an electronic merchandise exchange platform for commodity goods trading in the PRC

* rounded to the nearest tenth of one percent

In December 2016, the board of directors of XHME had resolved to restructure its business lines for local compliance purpose which involved the suspension of a material line of business. In view of this, for the year ended 31 December 2016, the directors of the Company had performed an impairment assessment of the Group's interest in XHME based on a valuation with the assistance of an independent valuer. The valuation of the Group's interests in associate was determined based on an underlying projection of cash flows provided by XHME. Based on the impairment assessment, the recoverable amount of the Group's interests in XHME was estimated to be higher than the carrying amount and no impairment was considered necessary as at 31 December 2016.

Subsequent to the issuance of the financial statements of the Group for the year ended 31 December 2016 and up to the date of approval of these interim financial statements, the business operation of XHME was still under suspension. The Group has therefore carried out an impairment assessment of its interest in XHME as of 30 June 2017 with assistance of an independent valuer using fair value less costs of disposal using the income approach. The key assumptions to which the fair value less costs of disposal being most sensitive in assessing the recoverable amount is as follows:

Discount for lack of marketability	16.11%
Discount for lack of control	24.70%

Based on the valuation, the recoverable amount of the Group's interests in XHME was determined to be approximately HK\$3,529,000 and accordingly, an impairment loss of approximately HK\$41,911,000 was recognised and included in the condensed consolidated statement of profit or loss and other comprehensive income. The fair value on which the recoverable amount being based is categorised within Level 3 measurement.

12. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	30 June 2017 HK\$'000 (Unaudited)	31 December 2016 HK\$'000 (Audited)
Trade receivables	64,037	26,244
Other receivables and prepayments	5,545	5,726
	69,582	31,970

The analysis of trade receivables is as follows:

	30 June 2017 HK\$'000 (Unaudited)	31 December 2016 HK\$'000 (Audited)
Arising from the business of dealing in securities		
– Hong Kong Securities Company Limited (“HKSCC”)	9,733	–
– Margin clients	1,239	1,635
Arising from asset management services	19,309	17,944
Arising from financial advisory and consultancy services	–	165
Arising from money lending services	30,148	–
Arising from placing services	2,924	5,838
Arising from proprietary trading	684	662
	64,037	26,244

The normal settlement terms of trade receivables arising from the business of dealing in securities are two business days after the respective trade dates. The amounts due from margin clients are repayable on demand subsequent to the settlement date and bear interest at Hong Kong Dollar Prime Rate plus a spread of 3% to 8% (2016: 3% to 8%) per annum.

The Group does not provide any credit term to clients for its financial advisory and consultancy services as well as asset management services. Amount arising from money lending services represents secured term loan which is repayable within one year. Amount arising from proprietary trading represents deposits placed with a securities broker which is repayable on demand. Settlement of amounts arising from placing services is in accordance with the terms set out in the respective agreements, usually within one year after the service obligation has been fulfilled.

The amounts due from margin clients are neither past due nor impaired. The ageing analysis of trade receivables in respect of other balances, based on due date, is as follows:

	30 June 2017 HK\$'000 (Unaudited)	31 December 2016 HK\$'000 (Audited)
Not yet past due	30,148	–
0 – 30 days	16,106	10,862
31 – 60 days	3,111	1,936
61 – 90 days	2,871	1,985
91 – 180 days	6,607	5,698
181 – 365 days	3,671	3,146
Over 365 days	284	982
	62,798	24,609

13. HELD FOR TRADING INVESTMENTS

	30 June 2017 HK\$'000 (Unaudited)	31 December 2016 HK\$'000 (Audited)
Listed equity securities	43,980	135,110
Unlisted investments funds (<i>note</i>)	24,846	97,047
	68,826	232,157

Note:

Pursuant to the relevant subscription agreements, the Group's interests in the above investment funds are in the form of redeemable shares, which are puttable at the holder's option and entitle the Group to a proportionate stake in the respective funds' net assets. These investment funds are managed by the respective investment managers who are empowered to manage their daily operations and apply various investment strategies to accomplish their respective investment objectives. The Group did not act as an investment manager of the above investment funds at 30 June 2017 and 31 December 2016.

14. TRADE AND OTHER PAYABLES AND ACCRUALS

	30 June 2017 HK\$'000 (Unaudited)	31 December 2016 HK\$'000 (Audited)
Trade payables arising from the business of dealing in securities		
– HKSCC	–	34,356
– Cash clients	351,027	302,031
– Margin clients	675	672
	351,702	337,059
Third party interests in collective investment schemes	–	60,044
Other payables and accruals	3,111	22,446
	354,813	419,549

The normal settlement terms of trade payables arising from the business of dealing in securities are two business days after the respective trade dates. The amounts payable to cash and margin clients are repayable on demand. No ageing analysis in respect of trade payables is disclosed as, in the opinion of the directors, the ageing analysis does not give additional value in view of the business nature.

INTERIM DIVIDEND

The directors of the Company (the “**Directors**”) do not recommend the payment of interim dividend for the six months ended 30 June 2017 (six months ended 30 June 2016: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business and Financial Review

For the six months ended 30 June 2017, the revenue of the Group decreased to approximately HK\$32.6 million, representing 6.3% decrease as compared with approximately HK\$34.8 million for the six months ended 30 June 2016. Loss for the six months ended 30 June 2017 was approximately HK\$123.0 million, as compared with loss of approximately HK\$52.5 million for the six months ended 30 June 2016. Such increase in loss is primarily attributable to the impairment loss on interest in an associate, Xinhua (Daqing) Merchandise Exchange Company Limited (“**XHME**”).

The Group shared the associate’s losses of approximately HK\$29.1 million and recognised impairment loss of approximately HK\$41.9 million on its interests in the associate. In December 2016, the board of directors of XHME had resolved to restructure its business lines for local compliance purpose which involved the suspension of a material line of business. During the six months ended 30 June 2017 and up to the date of approval of the interim financial statements of the Company, the business operation of XHME was still under suspension and there was no information on the restoration of the operation of the business lines. The Group has carried out an impairment assessment of its interest in XHME as of 30 June 2017 with the assistance of an independent valuer. Based on the valuation, the recoverable amount of the Group’s interests in XHME was determined to be approximately HK\$3.5 million and accordingly, an impairment loss of approximately HK\$41.9 million was recognised and included in the condensed consolidated statement of profit or loss and other comprehensive income. The Directors believed that such non-cash impairment provision would be in the interest of the Company.

During the six months ended 30 June 2017, investor sentiment in Hong Kong became more positive due to the improved global economy and the better-than-expected economic performance in Mainland China. In the first half of 2017, the Hang Seng Index rose 3,764 points or 17.1% to close at 25,764 points. However, the pace of interest rates hikes in the United States, the progress of Brexit talks, fear of terrorist attacks, and geopolitical tensions across the world increased the uncertainty and volatility of the global economic and political environments.

During the six months ended 30 June 2017, the total revenue of Sheng Yuan Financial Services Group Limited and its subsidiaries (the “**SYFS Group**”) decreased by nearly 6.9% to approximately HK\$32.4 million (2016: approximately HK\$34.8 million).

For securities business, the revenue from securities brokerage and financial services during the six months ended 30 June 2017 increased to approximately HK\$8.4 million (2016: approximately HK\$6.2 million). Such increase in revenue was mainly due to increase in the daily average turnover of Hong Kong stocks market and rose of the Hang Seng Index in light of the global economic improvement.

For asset management business, Sheng Yuan Asset Management Limited (“**SYAM**”) acts as the fund manager or investment adviser for 12 funds and 8 discretionary accounts. The total assets under management of SYAM have substantially increased by nearly 112.8% to more than HK\$10.0 billion (2016: HK\$4.7 billion) as of 30 June 2017. During six months ended 30 June 2017, SYAM recorded segment revenue of approximately HK\$24.4 million (2016: HK\$28.6 million), representing a decrease of nearly 14.7%.

From 2014 onwards, SYFS Group has expanded its proprietary trading business and mainly invested in second – tier listed shares in Hong Kong market. Due to the volatility of such stocks in the first half of 2017, the segment loss from proprietary trading business for the six months ended 30 June 2017 was approximately HK\$38.0 million (2016: HK\$27.6 million).

As the recovery of the commodity market remains slow, the Group has continued to suspend its trading business for the six months ended 30 June 2017. The segment loss for trading business for the six months ended 30 June 2017 was approximately HK\$1.8 million (2016: segment loss of HK\$2.8 million).

On 9 April 2014, Sheng Yuan Financial Services Group Limited (“**SYFS**”), a direct wholly-owned subsidiary of the Company, entered into a subscription agreement (the “**Subscription Agreement**”) with the several subscribers, pursuant to which the subscribers conditionally agreed to subscribe for and SYFS conditionally agreed to issue the convertible bonds at an aggregate consideration of HK\$45 million (the “**Convertible Bonds**”). Details of the Subscription Agreement and the Convertible Bonds has been set out in the announcement and circular of the Company dated 9 April 2014 and 16 May 2014 respectively.

On 15 June 2017, the Company received conversion notices from Team Effort Investments Limited (“**Team Effort**”) in respect of the exercise of the conversion rights attached to the Convertible Bonds in the aggregate amount of HK\$45,000,000 held by Team Effort at the conversion price of HK\$10,000 per conversion share. Subsequent to the issue and allotment of 4,500 conversion shares upon full conversion of the Convertible Bonds at the conversion price, a total of 4,500 conversion shares will be issued, representing 45% of the issued share capital of SYFS as enlarged by the issue and allotment of the conversion shares. The Company's equity interest in SYFS will be reduced to approximately 55% and SYFS will become a non-wholly owned subsidiary of the Company. Up to the reporting date, the issue of the conversion shares was yet to be completed.

Prospects

To capture the opportunities in increasing demand for foreign investment from Mainland China enterprises, the Group is planning to establish overseas platforms for investment to facilitate the global expansion of Mainland China enterprises.

To facilitate the diversification and expansion of business development in PRC, the Group will continue to search opportunities in Mainland China including but not limited to the setting up joint ventures investments through the “Mutual Recognition of Hong Kong and China Fund Programs”, which can further enlarge the investment options and investment scopes of investors in Hong Kong and Mainland China, CEPA, QFII (“Qualified Foreign Institutional Investor”) or QDII (“Qualified Domestic Institutional Investor”) frameworks by allowing the Group to access the huge and fast-growing financial markets and enabling the Group to engage in a full spectrum of securities and financial business in PRC. It is believed that the formation of such investments would offer a good opportunity for the Group to embark on a new milestone in its business development in financial services industry.

Acquisitions and Disposals

There was no material acquisition or disposal during the six months ended 30 June 2017.

Liquidity and Financial Resources

As at 30 June 2017, cash and bank balances in general accounts and maintained by the Group were approximately HK\$92.6 million, representing a decrease of approximately 26.8% from approximately HK\$126.5 million as at 31 December 2016. Balances in trust and segregated accounts were approximately HK\$340.0 million (31 December 2016: HK\$301.1 million). Trade and other receivables and prepayments were approximately HK\$69.6 million as at 30 June 2017 (31 December 2016: HK\$32.0 million), which mainly represented increased receivables from money leading business. Trade and other payables and accruals were approximately HK\$354.8 million as at 30 June 2017 (31 December 2016: HK\$419.5 million), which was due to decrease in other payable from asset management business.

The Group's current assets and current liabilities as at 30 June 2017 were approximately HK\$572.1 million (31 December 2016: HK\$693.1 million) and approximately HK\$537.5 million (31 December 2016: HK\$611.8 million) respectively. No borrowings as at 30 June 2017 (31 December 2016: HK\$26.4 million). The gearing of the Group, measured as total debts to total assets, remained healthy at approximately 30.7% as at 30 June 2017 (31 December 2016: 24.7%). As at 30 June 2017, the Group recorded net assets of approximately HK\$50.7 million (31 December 2016: HK\$166.4 million), which was mainly due to the loss recorded during the six months ended 30 June 2017. During the six months ended 30 June 2017, the Group financed its operation with internally generated cash flow and funds from convertible bonds issued.

Foreign Exchange Exposure

The Group's transactions are mainly denominated in Hong Kong dollars, United States dollars ("USD"), and Renminbi ("RMB"). The Group has not implemented any foreign currencies hedging policies. However, the Group's management will closely monitor exchange rate movement and will take appropriate actions to reduce the risks.

Capital Structure

During the six months ended 30 June 2017, 20,000,000 shares of the Company were issued upon exercise of share options.

Contingent Liabilities

As at 30 June 2017, the Group did not have any material contingent liabilities.

Pledge of Assets

As at 30 June 2017, the Group did not have any pledged assets.

Employees and Remuneration Policies

As at 30 June 2017, the Group employed 51 employees. The remuneration policy and package of the Group's employees are maintained at market level and are reviewed annually by management. In addition to basic salary, discretionary bonuses, mandatory pension fund and medical insurance scheme, share options may also be granted to eligible employees at the discretion of the Board and are subject to the performance of the individual employees as well as the Group.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 30 June 2017, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

CORPORATE GOVERNANCE

The Company is committed to maintain high standard of corporate governance standards and procedures to safeguard the interests of all shareholders and to enhance accountability and transparency. The Company has complied with the code on corporate governance practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") during the six months ended 30 June 2017 except the following deviations:

The Code provision A.2.1 stipulates that the role of the Chairman and the Chief Executive Officer should be separated and should not be performed by the same individual. Although the Company does not have a Chairman, all major decisions are made in consultation with the Board members and the senior management of the Company. There are three independent non-executive Directors in the Board. The Board considers that there is sufficient balance of power and the current arrangement maintains a strong management position of the Company.

Under the Code provision A.6.7, independent non-executive directors and other non-executive directors should attend general meetings. Dr. Huan Guocang, Mr. Lo Ka Wai and Mr. Wu Fred Fong, all are independent non-executive Directors, were unable to attend the annual general meeting of the Company held on 26 May 2017 as they had other business commitments.

Audit Committee

The audit committee of the Company currently comprises Mr. Lo Ka Wai (Chairman), Dr. Huan Guocang and Mr. Wu Fred Fong, all of whom are independent non-executive Directors with appropriate professional qualifications and experience in financial matters. The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed the internal control and financial reporting matters. The interim results and the unaudited financial statements for the six months ended 30 June 2017 have been reviewed by the audit committee and the external auditor.

Remuneration Committee

The remuneration committee of the Company is responsible for making recommendations to the Board on the Company's policy and packages of employment for the Directors and senior management. It comprises three independent non-executive Directors. The present members are Mr. Wu Fred Fong (Chairman), Dr. Huan Guocang and Mr. Lo Ka Wai.

Nomination Committee

The nomination committee of the Company is required, amongst other things, to review the structure, size and composition of the Board and make recommendations for changes as necessary, to identify individuals suitably qualified to become board members and select or make recommendations to the Board on the selection of, individuals nominated for directorships, to assess the independence of independent non-executive Directors, and to make recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for Directors in particular the Chairman and the Chief Executive Officer. It comprises three independent non-executive Directors. The present members are Dr. Huan Guocang (Chairman), Mr. Lo Ka Wai and Mr. Wu Fred Fong.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code of the Listing Rules as a code of conduct of the Company for directors' securities transactions. Having made specific enquiry of all Directors, the Directors have complied with the required standard set out in the Model Code and the Company's code of conduct regarding directors' securities transactions throughout the six months ended 30 June 2017.

DETAILS OF THE REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

Basis for Qualified Conclusion

Our conclusion of the review of the Group's interim condensed consolidated financial statements is qualified due to the following limitations:

- (i) During the six months ended 30 June 2017, the Group had recognised its share of the associate's loss for the period of HK\$29,148,000 using equity accounting. The Group's share of the loss of the associate of HK\$29,148,000 using equity accounting included effectively a share of the impairment loss of HK\$5,114,000 in respect of the associate's investment of RMB18,000,000. However, the management was unable to provide us with the information, including up to date financial information of that associate's investee company, which we considered necessary for the purpose of our review of the management's basis for measuring the impairment loss. As the investee company was not a listed entity in the PRC, we were also not able to obtain the relevant financial or other information which we considered necessary and there were no alternative procedures which we could carry out to determine if the associate's investment was impaired and the impairment loss of RMB18,000,000 reflected in the associate's financial statements, of which HK\$5,114,000 shared by the Group, was appropriately measured. As such, we were also unable to determine if the carrying amount of the Group's interest in the associate of HK\$3,529,000 as included in the condensed consolidated statement of financial position as of 30 June 2017 was appropriately stated. The Group's share of the associate's loss for the period was also qualified due to the matter explained in paragraph below.
- (ii) Our audit opinion on the Group's financial statements as of 31 December 2016 was qualified due to certain limitations on our scope of work as set out in our report dated 17 March 2017 which included limitations arising from the fact that the audit of the associate's financial statements as of 31 December 2016 by the component auditors was not completed as of our audit report date and that there were insufficient audit evidence available to us relating to the impairment review of the Group's interest in associate as of 31 December 2016. In respect of these matters, there were no alternative audit procedures that we could adopt to satisfy ourselves as to whether the Group's interests in the associate was fairly stated. Despite the component auditors have subsequently issued their audit report, their audit opinion was qualified as in their view there were limitations in respect of their assessment whether that associate's investment of RMB18,000,000 and certain intangible assets of RMB9,500,000 as of 31 December 2016 was impaired or not and the extent of impairment. The matters leading to our qualified audit opinion remained unresolved during the course of our review of the Company's interim condensed consolidated financial statements. Our review conclusion on the interim condensed consolidated financial statements is qualified because of the possible

effect of this matter on the comparability of the Group's interests in the associate as of 30 June 2017 of HK\$3,529,000 and 31 December 2016 of HK\$72,334,000. Also because of the limitations, we are unable to determine whether adjustments to the opening accumulated losses of the Group of HK\$306,342,000 as at 1 January 2017 might be necessary. These matters as mentioned above may have consequential impact on the amount of the Group's impairment loss on interests in the associate and the Group's share of the associate's loss for the six months ended 30 June 2017.

Qualified Conclusion

Except for the adjustments to the interim financial information that we might have become aware of had it not been for the situation described above, based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the website of the Company (www.shengyuan.hk) and the Stock Exchange (www.hkexnews.hk). The interim report for the six months ended 30 June 2017 of the Company containing all information required by the Listing Rules will be dispatched to the shareholders of the Company and available on the above websites in due course.

BOARD OF DIRECTORS

As at the date of this announcement, the Board consists of Mr. Wu Siu Lam, William, Ms. Cheng Kit Sum, Clara and Mr. Qiu Bin (all being executive Directors), Dr. Huan Guocang, Mr. Lo Ka Wai and Mr. Wu Fred Fong (all being independent non-executive Directors).

By Order of the Board
Sheng Yuan Holdings Limited
Wu Siu Lam, William

Executive Director and Chief Executive Officer

Hong Kong, 28 August 2017