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 2018

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 2018 together with the comparative figures for the corresponding period in 2017 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2018

		Six months ended 30 June	
		2018	2017
		(Unaudited)	(Unaudited)
	Notes	***HK$'000***	*HK$'000*
Fee and commission income	*6*	**15,503**	32,372
Interest income	*6*	**1,317**	221
		16,820	32,593
Other gains and losses	*7*	**(19,863)**	(21,722)
Other income		**21**	56
Staff costs	*8*	**(14,296)**	(31,597)
Depreciation		**(153)**	(236)
Finance costs	*8*	**(11,950)**	(14,919)
Reversal of provision		**4,394**	–
Other expenses		**(11,829)**	(13,579)
Share of results of an associate		**(1,723)**	(29,148)
Impairment loss on interests in an associate		**–**	(41,911)
Loss before income tax	*8*	**(38,579)**	(120,463)
Income tax expense	*9*	**(1,457)**	(2,566)
Loss for the period		**(40,036)**	(123,029)

	Notes	Six months ended 30 June **2018** **(Unaudited)** ***HK$'000***	 2017 (Unaudited) *HK$'000*
Other comprehensive income			
Item that may be reclassified subsequently to profit or loss			
– Exchange differences on translating foreign operations			
Exchange differences arising during the period		**(103)**	2,367
Reclassification adjustments relating to foreign operations disposed of during the period		**6,528**	–
Other comprehensive income for the period		**6,425**	2,367
Total comprehensive income for the period		**(33,611)**	(120,662)
Loss for the period attributable to:			
– Owners of the Company		**(40,028)**	(123,015)
– Non-controlling interests		**(8)**	(14)
		(40,036)	(123,029)
Total comprehensive income for the period attributable to:			
– Owners of the Company		**(33,603)**	(120,648)
– Non-controlling interests		**(8)**	(14)
		(33,611)	(120,662)
		HK cents	*HK cents*
Loss per share	*11*		
– Basic		**(1.12)**	(3.47)
– Diluted		**(1.12)**	(3.47)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

	Notes	30 June 2018 HK$'000 (Unaudited)	31 December 2017 HK$'000 (Audited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		**392**	527
Trading rights		**–**	3,322
Goodwill		**7,000**	7,000
Interests in an associate	*12*	**–**	1,863
Other assets		**1,705**	1,730
Deferred tax asset		**144**	144
		9,241	14,586
Current assets			
Trade and other receivables and prepayments	*13*	**63,327**	69,481
Held for trading investments	*14*	**25,854**	39,616
Trust bank balances held on behalf of clients		**205,859**	221,581
Cash and cash equivalents		**75,374**	87,556
		370,414	418,234
Current liabilities			
Trade and other payables and accruals	*15*	**217,363**	242,453
Convertible bonds		**105,110**	143,517
Provision		**–**	33,708
Current tax liabilities		**2,063**	606
		324,536	420,284
Net current assets/(liabilities)		**45,878**	(2,050)
Total assets less current liabilities		**55,119**	12,536
Non-current liabilities			
Convertible bonds		**75,307**	–
		75,307	–
Net (liabilities)/assets		**(20,188)**	12,536

	30 June 2018 *HK$'000* (Unaudited)	31 December 2017 *HK$'000* (Audited)
EQUITY		
Share capital	**178,128**	178,128
Reserves	**(198,316)**	(183,381)
Capital deficiency attributable to owners of the Company	**(20,188)**	(5,253)
Non-controlling interests	**–**	17,789
(Capital deficiency)/ Total equity	**(20,188)**	12,536

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

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 2018 were approved for issue by the board of directors on 31 August 2018.

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, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2017.

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 2018. 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**"). Except as explained below, the adoption of new HKFRSs has no material impact on the Group's financial statements. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

HKFRS 9, Financial Instruments

The Group has applied HKFRS 9 "Financial Instruments" in accordance with the transition provisions. HKFRS 9 introduces new requirements for (i) the classification and measurement of financial assets and financial liabilities and (ii) impairment for financial assets that is relevant to the Group. Details of these new requirements as well as their impact on the Group's condensed consolidated financial statements are described below.

In addition, as a result of the adoption of HKFRS 9, the Group adopted consequential amendments to HKAS 1 "Presentation of Financial Statements" which requires interest revenue calculated using the effective interest method to be presented separately from revenue and impairment of financial assets to be presented in separate line item in the statement of profit or loss and other comprehensive income. Previously, the Group presented revenue from contracts with customers and interest revenue in a single line item and included impairment of financial assets, if any, in "Other gains and losses".

Classification and measurement of financial assets

The date of initial application (i.e. the date on which the Group has assessed its existing financial assets and financial liabilities in terms of the requirements of HKFRS 9) is 1 January 2018. Accordingly, the Group has applied the requirements of HKFRS 9 to instruments that have not been derecognised as at 1 January 2018 and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018 in accordance with the transition requirements. Comparative amounts in relation to instruments that have not been derecognised as at 1 January 2018 have not been restated.

Under HKFRS 9, all recognised financial assets are required to be subsequently measured at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are subsequently measured at amortised cost; debt investments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are subsequently measured at fair value through other comprehensive income ("**FVTOCI**"); all other debt investments and equity investments are subsequently measured at fair value through profit or loss ("**FVTPL**").

Despite the foregoing, the Group may at initial recognition of a financial asset irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by the Group in a business combination to which HKFRS 3 applies in other comprehensive income; and designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

When a debt investment measured at FVTOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. In contrast, for an equity investment designated as measured at FVTOCI, the cumulative gain or loss previously recognised in other comprehensive income is not subsequently reclassified to profit or loss. Debt instruments that are subsequently measured at amortised cost or at FVTOCI are subject to impairment as set out below.

The directors of the Company reviewed and assessed the Group's existing financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of HKFRS 9 has had the following impact on the Group's financial assets as regards their classification and measurement:

- financial assets classified as loans and receivables under HKAS 39 that were measured at amortised cost continue to be measured at amortised cost under HKFRS 9 as they are held within a business model to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding; and

- financial assets that were measured at FVTPL under HKAS 39 continue to be measured as such under HKFRS 9.

The above reclassifications of financial assets did not have any impact on the Group's financial position, profit or loss, other comprehensive income or total comprehensive income for current period.

Impairment of financial assets

In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires the Group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Expected credit losses is a probability-weighted estimate of credit losses, which is estimated as the difference between the cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the original effective interest rate. Specifically, loss allowance for trade receivables that result from transactions that are within the scope of HKFRS 15 are recognised at an amount equal to lifetime expected credit loss which represents the expected credit losses ("**ECL**") that will result from all possible default events over the expected life of a financial instrument. The ECL on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For other financial assets subject to impairment assessment, HKFRS 9 requires the Group to measure the loss allowance at an amount equal to the lifetime ECL when the financial instrument is a purchased or originated credit-impaired financial asset, or when the credit risk on that financial instrument has increased significantly since initial recognition. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;

- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

- a breach of contract, such as a default or past due event.

In addition, the Group considers that an event of default occurs when there is a breach of financial covenants by the counterparty; or information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group). Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

- an actual or expected significant deterioration in the operating results of the debtor; or

- significant increases in credit risk on other financial instruments of the same debtor.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if (i) the financial instrument has a low risk of default, (ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and (iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group also considers a financial asset to have low credit risk when it has an internal or external credit rating of "investment grade".

On the other hand, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit-impaired financial asset), the Group is required to measure the loss allowance for that financial instrument at an amount equal to 12-month ECL which represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date. If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognised in other comprehensive income and accumulated in the investment revaluation reserve, and does not reduce the carrying amount of the financial asset in the statement of financial position. The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

As at 1 January 2018, the directors of the Company reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. The result of the assessment is as follows:

(a) Trade receivables

The Group makes use of a simplified approach in accounting for trade receivables and records the loss allowance as lifetime expected credit losses. Receivables from clearing houses and cash clients are usually settled a few days after the execution of relevant transactions. Receivables from asset management services rarely default, given the Group manages assets worth multiples of any outstanding fees on behalf of those clients. Receivables from margin financing and money lending services are collateralised and have sufficiently low "Loan to value" ratio. After considering the potential for default at any point and using its historical experience, external indicators and forward-looking information, the directors considered that the expected shortfalls in contractual cash flows would be insignificant.

(b) Cash and cash equivalents and trust bank balances held on behalf of clients and other assets

All bank balances are assessed to have low credit risk at each reporting date as they are held with reputable banking institutions. Other assets are assessed to have low credit risk as these items mainly represented deposits with the clearing houses. After considering the potential for default at any point and using its historical experience, external indicators and forward-looking information, the directors considered that the expected shortfalls in contractual cash flows would also be insignificant.

Classification and measurement of financial liabilities

One major change introduced by HKFRS 9 in the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability designated as at FVTPL attributable to changes in the credit risk of the issuer.

Specifically, HKFRS 9 requires that the changes in the fair value of the financial liability that is attributable to changes in the credit risk of that liability be presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss, but are instead transferred to retained earnings when the financial liability is derecognised.

As the Group did not designate any financial liabilities at FVTPL at 1 January 2018, the application of HKFRS 9 has had no impact on the classification and measurement of the Group's financial liabilities.

HKFRS 15, Revenue from Contracts with Customers

In the current period, the Group has applied HKFRS 15 "Revenue from Contracts with Customers" (as amended in June 2016). HKFRS 15 introduces a 5-step approach to revenue recognition. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Under HKFRS 15, revenue will be recognised when (or as) the entity satisfies a performance obligation by transferring a service to a customer. Furthermore, revenue will be recognised for contracts to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue will not occur.

The Group has applied HKFRS 15 in accordance with the modified retrospective transitional approach whereby the cumulative effect of initially applying HKFRS 15 for uncompleted contracts with customers as at 1 January 2018 are adjusted at the opening balance of equity as at 1 January 2018 and prior period comparatives are not restated.

In addition, as required for the interim condensed consolidated financial statements, the Group disaggregated revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. The Group also disclosed information about the relationship between the disclosure of disaggregated revenue and revenue information disclosed for each reportable segment.

The Group's revenue in scope of HKFRS 15 are primarily consist of management and performance fee income from the provision of fund and portfolio management and investment advisory services and commission income from the securities dealing and the provision of underwriting and placement services. The Group has considered the requirements under HKFRS 15, and assessed the timing of recognition as follows:

(a) *Fund and portfolio management and investment advisory services*

The Group earns management fees from managed funds and portfolio, at a fixed percentage of assets under management, net asset value or invested capital. Management fees are recognised over the period in which the investment management and advisory services are performed because customers simultaneously consume and receive benefits that are satisfied over time. Management fees are a form of variable consideration because the fees the Group entitled to is subject to a broad range of possible outcomes due to market volatility and other factors outside of the Group's control and are recognised under output method. The amount of revenue is generally determined at the end of each reporting period because the management fees are payable on a regular basis (typically monthly, quarterly and semi-annually) and are not subject to clawback once they are payable.

The Group also earns performance fees based on fund performance during the period, subject to the achievement of high-water marks or hurdle rates, in accordance with the respective terms set out in the investment management agreement. Performance fees is recognised as revenue when it is probable that a significant reversal in the amount of cumulative revenue recognised will not occur or the uncertainty associated with the variable consideration is subsequently resolved. Performance fees are recognised as revenue when realised at the end of the measurement period and are not subject to clawback or reversal.

(b) *Securities dealing services*

The Group earns commission from execution of client transactions in the trading equity and debt securities. The execution of client transactions also included settling and clearing services, which are provided together and represent a single performance obligation as the services are not separately identifiable in the context of the contract. Commissions are recognised at a point in time on trade date because the customer has obtained the rights to the underlying securities provided by the securities dealing services.

(c) *Underwriting and placement services*

The Group earns underwriting and placing commission by providing capital raising services for corporate clients. Underwriting and placing fees are considered variable consideration and recognised when it is probable that the variable consideration will not be reversed in a future period. The variable consideration is considered to be constrained until satisfaction of the performance obligation. The Group's performance obligation is generally satisfied at a point in time upon closing of a transaction, completion of a financing or underwriting arrangement, at which point of time the Group has transferred control and the customer obtains control of the promised service.

As a result of the above assessment, the Group has not identified any material changes to current revenue recognition principles and apart from providing more extensive disclosures on the Group's revenue transactions, the application of HKFRS 15 has not had a significant impact on the financial position and/or financial performance of the Group for the current 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 2017, except for the adoption of new HKFRSs.

The Group had incurred losses after tax of approximately HK$40 million for the six months ended 30 June 2018 (six months ended 30 June 2017: HK$123 million) and had net liabilities of approximately HK$20 million as at 30 June 2018 (31 December 2017: net assets of HK$13 million). As at 30 June 2018, the Group's liabilities included convertible bonds with principal amount of approximately HK$110 million (31 December 2017: HK$155 million) which is repayable on demand or within one year and approximately HK$90 million (31 December 2017: Nil) which is repayable in two years from the date of issue of 4 June 2018. These conditions indicate the existence of a material uncertainty which may cast doubt on the Group's ability to continue as a going concern and hence, its ability to realise its assets and discharge its liabilities in the normal course of business.

Notwithstanding the above conditions, the financial statements were prepared based on the assumption that the Group can be operated as a going concern after taking into consideration of the following measures:

- the Group has obtained continuous financial support from a substantial shareholder of the Company as necessary to enable the Group to meet its operating and financing obligations, as and when they are fall due;
- the Group is negotiating for loan financing and other alternative financing arrangements such as placing of new shares to new potential investors;
- the Group would continuously review and monitor its receivables in order to ensure the receivables are recovered on time; and
- the Group would expand its money lending business from the proceeds received from the additional financing and shall continue to apply various measures to tighten its operating expenditures in order to improve its profitability; and to generate positive cash inflow from its operations.

Having regard to the cash flow projection of the Group, which are prepared assuming that these measures are successful, the directors of the Company are of the opinion that, the Group will have sufficient working capital to satisfy its future working capital and other financing requirements for at least the next twelve months from 30 June 2018. Accordingly, these financial statements were prepared on a going concern basis.

Should the Group be unable to continue in business as a going concern, adjustments would have to be made in the financial statements to write down the values of the assets to their recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets as current assets and non-current liabilities as current liabilities. The effect of these adjustments has not yet been reflected in the financial statements.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The judgements, estimates and assumptions applied in the interim financial statements, including the key sources of estimation uncertainty, were the same as those applied in the Group's annual financial statements for the year ended 31 December 2017. The only exceptions are discussed below, which is arising from the newly applied HKFRS 9:

Measurement of expected credit losses

The measurement of the expected credit loss allowance for financial assets measured at amortised cost is an area that requires the use of significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). A number of significant judgments, including determining the criteria for significant increase in credit risk, are also required in applying the accounting requirements for measuring ECL. Details about the judgements and assumptions used in measuring ECL is set out in note 2 to these financial statements. Changes to these estimates and assumptions can result in significant changes to the timing and amount of ECL to be recognised.

5. 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.

During the six months ended 30 June 2018, there were no changes from prior periods in the measurement methods used to determine operating segments, reported segment profit or loss and reported segment assets and liabilities. 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 *HK$'000*	Asset management services *HK$'000*	Proprietary trading *HK$'000*	Trading business *HK$'000*	Total *HK$'000*
Six months ended 30 June 2018 (Unaudited)					
Reportable segment revenue					
External customers					
– Fee and commission income	**1,061**	**14,442**	**–**	**–**	**15,503**
– Interest income	**1,317**	**–**	**–**	**–**	**1,317**
Inter-segment	**–**	**–**	**–**	**–**	**–**
	2,378	**14,442**	**–**	**–**	**16,820**
Fee and commission income from external customers					
– Timing of revenue recognition					
Point in time	**1,061**	**–**	**–**	**–**	**1,061**
Over time	**–**	**14,442**	**–**	**–**	**14,442**
	1,061	**14,442**	**–**	**–**	**15,503**
– Geographical region					
Hong Kong	**1,061**	**14,181**	**–**	**–**	**15,242**
Mainland China	**–**	**261**	**–**	**–**	**261**
	1,061	**14,442**	**–**	**–**	**15,503**
Reportable segment result	**(8,423)**	**6,325**	**(9,758)**	**(4,200)**	**(16,056)**
30 June 2018 (Unaudited)					
Reportable segment assets	**247,578**	**28,026**	**25,930**	**55**	**301,589**
Reportable segment liabilities	**215,978**	**705**	**62**	**48**	**216,793**

	Securities brokerage and financial services *HK$'000*	Asset management services *HK$'000*	Proprietary trading *HK$'000*	Trading business *HK$'000*	Total *HK$'000*
Six months ended 30 June 2017 (Unaudited)					
Reportable segment revenue					
External customers					
– Fee and commission income	8,221	24,151	–	–	32,372
– Interest income	221	–	–	–	221
Inter-segment	–	248	–	–	248
	8,442	24,399	–	–	32,841
Fee and commission income from external customers					
– Timing of revenue recognition					
Point in time	8,219	–	–	–	8,219
Over time	2	24,151	–	–	24,153
	8,221	24,151	–	–	32,372
– Geographical region					
Hong Kong	8,207	23,597	–	–	31,804
Mainland China	14	554	–	–	568
	8,221	24,151	–	–	32,372
Reportable segment result	1,422	11,807	(38,010)	(1,763)	(26,544)
31 December 2017 (Audited)					
Reportable segment assets	264,652	35,732	39,967	59	340,410
Reportable segment liabilities	239,002	1,838	313	53	241,206

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

	Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Reportable segment result	**(16,056)**	(26,544)
Other income	**21**	56
Equity-settled share-based payment expense	**(876)**	–
Finance costs	**(11,950)**	(14,919)
Loss on disposal of subsidiaries	**(2,919)**	–
Reversal of provision for settlement of convertible bonds	**4,393**	–
Share of results of an associate	**(1,723)**	(29,148)
Impairment loss on interests in an associate	**–**	(41,911)
Corporate expenses**	**(9,469)**	(7,997)
Group's loss before income tax	**(38,579)**	(120,463)

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

6. FEE AND COMMISSION INCOME, INTEREST INCOME

	Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Fee and commission income		
Securities brokerage and financial services segment:		
– Securities dealing	**1,019**	2,546
– Financial advisory and consultancy	**–**	2
– Underwriting and placing	**–**	5,627
– Others	**42**	46
	1,061	8,221
Asset management services segment:		
– Fund and portfolio management and investment advisory	**14,442**	24,151
	15,503	32,372
Interest income		
– Margin financing and money lending	**1,317**	221
	1,317	221
	16,820	32,593

7. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Changes in fair value of held for trading investments	**(13,763)**	(27,185)
Changes in third party interests in collective investment schemes	**–**	5,325
Impairment loss on trading rights	**(3,322)**	–
Net foreign exchange gains	**120**	81
Net losses on disposals of property, plant and equipment	**–**	(2)
Loss on disposal of subsidiaries	**(2,919)**	–
Others	**21**	59
	(19,863)	(21,722)

8. LOSS BEFORE INCOME TAX

	Six months ended 30 June	
	2018	2017
	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	**11,948**	14,641
– Interest on bank and other borrowings	**2**	2
– Interest on loans from a substantial shareholder	**–**	276
	11,950	14,919
Staff costs, including directors' emoluments		
– Fees, salaries, allowances and bonuses	**13,148**	30,846
– Equity-settled share-based payments	**876**	–
– Retirement benefit scheme contributions*	**272**	751
	14,296	31,597

* The amount included forfeited contributions of HK$279,000 (six months ended 30 June 2017: Nil) in respect of employees who left employment prior to such contributions vesting fully in accordance with the rules of the MPF Scheme.

9. INCOME TAX EXPENSE

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "**Bill**") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of qualifying corporation are taxed 8.25%, and profits above HK$2 million are taxed at 16.5%. The profits of corporation not qualifying the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

For the six months ended 30 June 2018, Hong Kong profits tax is calculated in accordance with the two-tiered profits tax rates regime. For the six months ended 30 June 2017, Hong Kong profits tax was provided at a flat rate of 16.5% on the estimated assessable profits.

	Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Current tax – Hong Kong profits tax		
– Provision for current period	**1,457**	2,709
– Over provision in respect of prior years	**–**	(143)
Total income tax expense	**1,457**	2,566

10. DIVIDENDS

No dividend was proposed or paid during the six months ended 30 June 2018 and 2017, nor has any dividend been proposed since the end of the reporting periods.

11. LOSS PER SHARE

The calculation of basic loss per share is based on the loss attributable to owners of the Company of approximately HK$40,028,000 (six months ended 30 June 2017: loss of approximately HK$123,015,000) and the weighted average number of 3,562,562,556 (six months ended 30 June 2017: 3,543,943,771) 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.

12. INTERESTS IN AN ASSOCIATE

	30 June	31 December
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Share of net assets	**–**	2,800
Goodwill	**–**	39,854
	–	42,654
Provision for impairment	**–**	(40,791)
	–	1,863

On 28 June 2018, the Company had entered into an agreement to sell the entire issued share capital of a subsidiary, Joinbo Holdings Limited, which indirectly owns 25%* of the equity interest in Xinhua (Daqing) Merchandise Exchange Company Limited ("**XHME**"). XHME is an entity incorporated in the PRC which is principally operating an electronic merchandise exchange platform for commodity goods trading in the PRC. Following the completion of the disposal, the Company no longer hold any of the interest in XHME and XHME ceased to be recognised as an associate of the Company.

* rounded to the nearest one percent

13. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	30 June 2018	31 December 2017
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade receivables	**58,847**	64,260
Other receivables and prepayments	**4,480**	5,221
	63,327	69,481

The analysis of trade receivables is as follows:

	30 June 2018	31 December 2017
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Arising from the business of dealing in securities		
– Hong Kong Securities Clearing Company Limited ("**HKSCC**")	**9,351**	15,967
– Margin clients	**35**	1,309
Arising from asset management services	**19,006**	26,539
Arising from money lending services	**30,455**	20,444
Arising from proprietary trading	**–**	1
	58,847	64,260

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% (31 December 2017: 3% to 8%) per annum.

The Group generally does not provide any credit term to clients for its asset management services. Amounts arising from money lending services represents term loans which are repayable within one year from the end of reporting period and bears interest at a fixed rate of 10% per annum (31 December 2017: 10%) and are secured by marketable securities with fair value of HK$60,000,000 at 30 June 2018 (31 December 2017: HK$39,000,000). Amounts arising from proprietary trading represented deposits placed with a securities broker which was repayable on demand.

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 2018	31 December 2017
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Not yet past due	**31,221**	20,444
0 – 30 days	**16,869**	19,464
31 – 60 days	**23**	2,803
61 – 90 days	**159**	2,917
91 – 180 days	**5,358**	8,256
181 – 365 days	**5,182**	6,638
Over 365 days	**–**	2,429
	58,812	62,951

14. HELD FOR TRADING INVESTMENTS

	30 June 2018	31 December 2017
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Listed equity securities	**24,224**	37,841
Unlisted investments funds *(note)*	**1,630**	1,775
	25,854	39,616

Note:

Pursuant to the 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 at any time, for an amount equal to the pro rata share of the fund's net assets and entitle the Group to a proportionate stake in the respective funds' net assets. These investment funds are managed by the respective unrelated investment managers who are empowered to manage their daily operations and apply various investment strategies to accomplish their respective investment objectives.

15. TRADE AND OTHER PAYABLES AND ACCRUALS

	30 June 2018 *HK$'000* **(Unaudited)**	31 December 2017 *HK$'000* (Audited)
Trade payables arising from the business of dealing in securities		
– HKSCC	**2**	–
– Cash clients	**215,120**	237,628
– Margin clients	**504**	460
	215,626	238,088
Other payables and accruals	**1,737**	4,365
	217,363	242,453

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.

16. DISPOSAL OF SUBSIDIARIES

On 28 June 2018, the Company entered into an agreement to sell the entire issued share capital of a subsidiary, Joinbo Holdings Limited, for a cash consideration of HK$4,000,000. The net assets disposed of, the resulting loss on disposal and the net cash inflow in respect of the above transaction were as follows:

	HK$'000 (Unaudited)
Net assets disposed of:	
Property, plant and equipment	1
Interests in an associate	193
Other receivables and prepayments	169
Cash and cash equivalents	18
Other payables and accruals	(1)
	380
Loss on disposal:	
Consideration received	4,000
Net assets disposed of	(380)
Non-controlling interests	(11)
Cumulative currency translation reserve in respect of the subsidiaries and associate disposed of reclassified from equity to profit or loss on disposal	(6,528)
	(2,919)**
Net cash inflow:	
Total consideration	4,000
Less: Cash and cash equivalents disposed of	(18)
	3,982

** included in "Other gains and losses" in profit or loss

INTERIM DIVIDEND

The directors of the Company (the "**Directors**") do not recommend the payment of interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business and Financial Review

For the six months ended 30 June 2018, the fee and commission income of the Group substantially decreased to approximately HK$15.5 million, representing 52.2% decrease as compared with approximately HK$32.4 million for the six months ended 30 June 2017. For the six months ended 30 June 2018, the interest income of the Group increased to approximately HK$1.3 million due to increased income from money lending business, representing 550.0% increase as compared with approximately HK$0.2 million for the six months ended 30 June 2017. Loss for the six months ended 30 June 2018 was approximately HK$40.0 million, as compared with loss of approximately HK$123.0 million of the six months ended 30 June 2017. Such decrease in loss is primarily attributable to decrease in staff costs, decrease in loss on proprietary trading, and the absence of impairment loss and decrease in loss on share of results on interest in Xin Hua (Daqing) Merchandise Exchange Company Limited.

In the first half of 2018, the global economy continued its growth momentum in the previous year. Although the positive signs remained unchanged, momentum of margin growth weakened. Meanwhile, the global economy was exposed to increasing risks and difficulties, including the slowdown of growth of major economies, rising inflation, beginning of a tightened currency policy circle as well as pick-up of trading protectionism. Overall, the global economic condition in the first half of 2018 weakened as compared to 2017 due to increased adverse effects of external environment.

In the first half of 2018, dragged by the news of trading war between China and the US, the stock market in Hong Kong swung downward repeatedly, with 5,315 points move. The Hang Seng Index had a roaring start in the first month of the year, beating the 2017 high at one stroke and recording various new highs. In February 2018, however, as the attitude of the chairman of the US Federal Reserve toward interest rate hike gradually became positive and the interest of the US 10-Year Bond soared, combined with the uncertainties of the trading war between China and the US, the stock market in Hong Kong fluctuated after a surge.

During the six months ended 30 June 2018, the total revenue of Sheng Yuan Financial Services Group Limited and its subsidiaries (collectively, the "**SYFS Group**") decreased by nearly 52.2% to approximately HK$15.5 million (2017: HK$32.4 million).

For securities business, revenue from securities brokerage and financial services during the six months ended 30 June 2018 decreased significantly by 71.4% to approximately HK$2.4 million (2017: approximately HK$8.4 million); segment result recorded a loss of approximately HK$8.4 million (2017: profit of approximately HK$1.4 million). Such decrease in revenue was mainly due to the absence of income from placement for the six months ended 30 June 2018 as a result of an inactive placing market caused by the repeated downswing of stock market in the first half of the year.

For asset management business, Sheng Yuan Asset Management Limited ("**SYAM**") acts as the fund manager or investment adviser for 10 funds and 5 discretionary accounts. The total assets under management of SYAM have increased by nearly 8% to more than approximately HK$10.8 billion for the six months ended 30 June 2018 (2017: approximately HK$10 billion). During the six months ended 30 June 2018, SYAM recorded segment revenue of approximately HK$14.4 million (2017: approximately HK$24.4 million), representing a decrease of approximately 41.0%; it recorded segment profit of approximately HK$6.3 million (2017: approximately HK$11.8 million), representing a decrease of approximately 46.6%. The significant decrease in revenue and profit was mainly due to the decrease in gross profit margin of fund management fee received.

For proprietary trading business, the SYFS Group mainly invests in the listed shares and private funds in Hong Kong market. During the six months ended 30 June 2018, as no additional investment in proprietary trading business, the segment loss from proprietary trading business was approximately HK$9.8 million (2017: HK$38 million). Such loss was mainly due to the provision for impairment of the value of shares and private funds held by the Group owing to under-performance of the stock market.

As the Group focuses on the development of financial services business and the recovery of commodity market remains slow, the Group has continued to suspend its trading business for the six months ended 30 June 2018. The segment loss for trading business for the six months ended 30 June 2018 was approximately HK$4.2 million (2017: segment loss of HK$1.8 million), mainly from staff cost and the loss of HK$2.9 million from the disposal of subsidiaries. Details of the disposal of subsidiaries have been set out in the announcement of the Company dated 29 June 2018.

On 29 December 2017, the Company, Sheng Yuan Financial Services Group Limited ("**SYFS**") and Team Effort Investments Limited ("**Team Effort**") entered into a deed of settlement (the "**Deed of Settlement**"), pursuant to which the Company will issue the convertible bonds of a principal amount of HK$90,000,000 to Team Effort, bearing the rate of interest of 8% per annum and at the initial conversion price of HK$0.35 per share, (the "**Convertible Bonds**") for the settlement and release of SYFS' obligations under the convertible bonds issued by SYFS on 16 June 2014 due on 15 June 2017 in the principal amount of HK$45,000,000 ("**SYFS CBs**"). Details of the SYFS CBs and the Convertible Bonds have been set out in the circular and announcement of the Company dated 16 May 2014 and 29 December 2017 respectively.

On 4 June 2018, the issuance of Convertible Bonds in the principal amount of HK$90,000,000 by the Company to Team Effort was completed. The approval for the listing of, and permission to deal in, the 257,142,857 Conversion Shares upon conversion of the Convertible Bonds issued to Team Effort has been granted by the Stock Exchange.

Prospects

Looking forward to the second half of the year, Hong Kong will be exposed to increasing risks and difficulties, mainly from the evolvement of the trading war between China and the US, rising capital cost, further interest rate hike by the US Federal Reserve, beginning of interest rate hike circle in Hong Kong, depreciation of RMB and credit squeeze in Mainland China and economic downturn in emerging markets.

The SYFS Group will continue to improve the platform of financial management service. Apart from the consolidation of its traditional brokerage business, Sheng Yuan Securities Limited will further develop the intermediary businesses, such as underwriting of IPO, securities financing and placement of funds and shares, to secure steady and diversified profits. SYAM will continue to step up its efforts in funds management and discretionary accounts management services, establish additional funds of various types, develop more financial products and expand its customer base to keep abreast of the market trends by focusing on high-valued customers and potential professional investor groups. Sheng Yuan Capital (Hong Kong) Limited will continue to expand its financial consultancy businesses including IPO financing arrangement, merger and acquisition. For proprietary trading business, given that the investment market is expected to be increasingly volatile, it is necessary to exercise caution and care in processing each investment transaction in order to measure relevant risks. Therefore, the Group will continue to closely monitor market changes, manage and reorganize existing investment portfolio and, ultimately, achieve balance between risks and profits.

Further , the Group wishes to expand money lending business and will continue to adopt various measures to cut operating expense and improve profitability.

On 20 August 2018, Sheng Yuan Venture Capital Limited (the "**Intended Purchaser**"), a wholly-owned subsidiary of the Company, entered into the memorandum of understanding with two intended vendors (the "**Intended Vendors**") pursuant to which the Intended Purchaser intends to acquire, and the Intended Vendors intends to sell 80% equity interests in the target company (the "**Target Company**"), a limited liability company established under the laws of the PRC, from the Intended Vendors. The Target Company is principally engaged in financial leasing business. Taking into account of the prospects of the financial leasing market in the PRC, it is the intention of the Group to step into in this market and develop the business in PRC. The Board believes that the above proposed transaction will facilitate the Group's diversification and expansion of business development geographically.

Acquisitions and Disposals

There was no material acquisition during the six months ended 30 June 2018.

On 28 June 2018, the Company had entered into an agreement to sell the entire issued share capital of a subsidiary, Joinbo Holdings Limited, which indirectly owns 24.975% of the equity interest in Xinhua (Daqing) Merchandise Exchange Company Limited ("**XHME**"). XHME is an entity incorporated in the PRC which is principally operating an electronic merchandise exchange platform for commodity goods trading in the PRC. Following the completion of the disposal on 28 June 2018, the Company no longer hold any of the interest in XHME and XHME ceased to be recognised as an associate of the Company.

Liquidity and Financial Resources

As at 30 June 2018, cash and bank balances in general accounts and maintained by the Group were approximately HK$75.4 million, representing a decrease of approximately 13.9% from approximately HK$87.6 million as at 31 December 2017. Balances in trust and segregated accounts were approximately HK$205.9 million (31 December 2017: HK$221.6 million). Trade and other receivables and prepayments approximately HK$63.3 million as at 30 June 2018 (31 December 2017: HK$69.5 million), which mainly represented decreased trade volume arising from business of securities brokerage. Trade and other payables and accruals approximately HK$217.4 million as at 30 June 2018 (31 December 2017: HK$242.5 million), which was due to decrease in other payable from asset management business and trade payable from securities brokerage.

The Group's current assets and current liabilities as at 30 June 2018 were approximately HK$370.4 million (31 December 2017: HK$418.2 million) and approximately HK$324.5 million (31 December 2017: HK$420.3 million) respectively. No borrowings as at 30 June 2018 (31 December 2017: Nil). The gearing of the Group, measured as total debts to total assets, remained healthy at approximately 47.5% as at 30 June 2018 (31 December 2017: 33.2%). As at 30 June 2018, the Group recorded net current assets of approximately HK$55.1 million (31 December 2017: HK$12.5 million), which was mainly due to the settlement of 2014 SYFS Bonds during the six months ended 30 June 2018. During the six months ended 30 June 2018, 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

There has been no change to the capital structure of the Group during the six months ended 30 June 2018.

Significant Securities Investments

During the six months ended 30 June 2018, the Group has no further investments in held-for-trading securities in Hong Kong. As at 30 June 2018, the Company held an aggregate of 377,894,903 shares of Hong Kong Life Sciences and Technologies Group Limited, a company listed on the GEM of the Stock Exchange (stock code: 8085) at an average cost of HK$0.144 each for a consideration of approximately HK$54.5 million. As at 30 June 2018, such securities investment was at fair value of approximately HK$24.2 million (31 December 2017: HK$37.8 million), accounting for approximately 6.4% of the Group's total assets and the loss on the change in fair value for the six months ended 30 June 2018 was approximately HK$13.6 million (31 December 2017: HK$16.7 million).

Contingent Liabilities

As at 30 June 2018, the Group did not have any material contingent liabilities.

Pledge of Assets

As at 30 June 2018, the Group did not have any pledged assets.

Employees and Remuneration Policies

As at 30 June 2018, the Group employed 47 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 2018, 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 2018 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 and Mr. Wu Fred Fong, all are independent non-executive Directors, were unable to attend the annual general meeting of the Company both held on 25 May 2018 as they had other business commitments.

Audit Committee

The audit committee of the Company currently comprises Mr. Lo Ka Wai (Chairman), Mr. Fung Tze Wa and Dr. Huan Guocang, 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 2018 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. Fung Tze Wa (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. Fung Tze Wa and Mr. Lo Ka Wai.

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 2018.

EXTRACT OF REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Basis for Qualified Conclusion

The Group had disposed of a subsidiary, Joinbo Holdings Limited, which indirectly owned the equity interest in an associate and had recognised a loss on disposal of HK$2,919,000 for the six months ended 30 June 2018. The Group also recognised its share of associate's loss of HK$1,723,000 for the six months ended 30 June 2018 using the equity method of accounting prior to the disposal. The associate had an investment in a PRC company ("Investee Company") which was included in the Group's interests in an associate under the equity method of accounting during the six months ended 30 June 2018. The Investee Company was acquired by the associate in prior years at RMB18,000,000, in which the Group had an effective interest of HK$5,114,000 and a full impairment loss of HK$5,114,000 was recognised by the Group as part of the Group's share of loss of the associate of HK$29,148,000 during the six months ended 30 June 2017. Our conclusion of the review of the Company's interim condensed consolidated financial statements is qualified due to the following limitations:

(i) Our review conclusion on the Company's interim condensed consolidated financial statements for the six months ended 30 June 2017 was qualified due to certain limitations on our scope of work as set out in our report dated 28 August 2017. The limitations in our scope of audit of the Group's consolidated financial statements as at 31 December 2016, including our audit procedures on the Group's interests in the associate, remained unresolved in our review of the Group's interim condensed consolidated financial statements for the six months ended 30 June 2017. The limitations may have consequential impact on the amount of the Group's impairment loss on interests in the associate of HK$41,911,000 and the Group's share of associate's loss of HK$29,148,000 for the six months ended 30 June 2017. Our review conclusion on the interim condensed consolidated financial statements for the current period is also modified because of the possible effect of this matter on the comparability of the Group's impairment loss on interests in associate of HK$Nil and the Group's share of associate's loss of HK$1,723,000 for the six months ended 30 June 2018 with those for the six months ended 30 June 2017.

(ii) Our review conclusion on the Group's interim condensed consolidated financial statements for the six months ended 30 June 2017 and our audit opinion on the Group's financial statements as of 31 December 2017 were qualified due to certain limitations on our scope of work as set out in our reports dated 28 August 2017 and 21 March 2018, respectively. The limitations arose from the fact that we were unable to obtain relevant financial and other information of the associate's Investee Company which we considered necessary to assess the carrying amount of the associate's investment in the Investee Company in the associate's financial statements and therefore the Group's interests in the associate. The matter leading to our qualified review conclusion and qualified audit opinion remained unresolved during our review of the Group's interim condensed consolidated financial statements for the six months 30 June 2018. Because of these limitations, we are unable to determine whether adjustments to the opening accumulated losses of the Group of HK$454,076,000 as at 1 January 2018 might be necessary. These matters mentioned above may also have impact on the amount of the Group's share of loss of an associate and loss on disposal of subsidiaries for the six months ended 30 June 2018.

Qualified Conclusion

Except for the adjustments to the interim condensed consolidated financial statements that we might have become aware of had it not been for the situation described in the "Basis for Qualified Conclusion" paragraphs above, based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Emphasis of Matter – Material Uncertainty Related to Going Concern

Without further qualifying our conclusion, we draw attention to note 3 in the interim condensed consolidated financial statements, which indicates that the Group had loss after tax for the six months ended 30 June 2018 of HK$40,036,000 and a capital deficiency as of 30 June 2018 amounted to HK$20,188,000. These conditions, along with other matters as set forth in note 3, indicate the exercise of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern.

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 2018 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. Qiu Bin and Ms. Cheng Kit Sum, Clara (all being executive Directors), Mr. Chen Zhong Min (being non-executive Director), Mr. Fung Tze Wa, Dr. Huan Guocang and Mr. Lo Ka Wai (all being independent non-executive Directors).

By Order of the Board
Sheng Yuan Holdings Limited
Qiu Bin
Executive Director and Chief Executive Officer

Hong Kong, 31 August 2018