盛源控股有限公司

SHENG YUAN HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock code: 851)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

The board of directors (the "Directors", collectively referred to as the "Board") of Sheng Yuan Holdings Limited (the "Company") announces the consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2018 together with the comparative figures for the corresponding year ended 31 December 2017 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	**2018** ***HK$'000***	2017 *HK$'000*
Fee and commission income	*5*	**31,699**	60,420
Interest income	*5*	**2,447**	2,827
		34,146	63,247
Other gains and losses	*6*	**(33,987)**	(28,625)
Other income	*7*	**211**	63
Staff costs	*9*	**(29,524)**	(56,148)
Depreciation		**(237)**	(418)
Finance costs	*8*	**(28,277)**	(27,508)
Reversal of provision/(Provision)		**4,394**	(33,708)
Other expenses	*9*	**(25,327)**	(26,358)
Share of results of an associate		**(1,723)**	(31,937)
Impairment loss on interests in an associate		**–**	(40,791)

	Notes	2018 HK$'000	2017 HK$'000
Loss before income tax	*9*	**(80,324)**	(182,183)
Income tax expense	*10*	**(1,330)**	(2,341)
Loss for the year		**(81,654)**	(184,524)
Other comprehensive income			
Item that may be reclassified subsequently to profit or loss			
– Exchange differences on translating foreign operations			
Exchange differences arising during the year		**(424)**	2,488
Reclassification adjustments relating to foreign operations disposed of during the year		**6,528**	–
Other comprehensive income for the year		**6,104**	2,488
Total comprehensive income for the year		**(75,550)**	(182,036)
Loss for the year attributable to:			
– Owners of the Company		**(81,646)**	(184,507)
– Non-controlling interests		**(8)**	(17)
		(81,654)	(184,524)
Total comprehensive income for the year attributable to:			
– Owners of the Company		**(75,542)**	(182,019)
– Non-controlling interests		**(8)**	(17)
		(75,550)	(182,036)
		HK cents	*HK cents*
Loss per share	*12*		
– Basic		**(2.28)**	(5.19)
– Diluted		**(2.28)**	(5.19)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		**352**	527
Trading rights		–	3,322
Goodwill		**7,000**	7,000
Interests in an associate	*13*	–	1,863
Other assets		**1,730**	1,730
Deferred tax assets		–	144
		9,082	14,586
Current assets			
Trade and other receivables and prepayments	*14*	**40,145**	69,481
Held for trading investments	*15*	**6,828**	39,616
Current tax assets		**938**	–
Trust bank balances held on behalf of clients		**45,407**	221,581
Cash and cash equivalents		**47,262**	87,556
		140,580	418,234
Current liabilities			
Trade and other payables and accruals	*16*	**54,219**	242,453
Borrowings		**80,421**	–
Convertible bonds		–	143,517
Provision		–	33,708
Contract liabilities		**450**	–
Current tax liabilities		–	606
		135,090	420,284
Net current assets/(liabilities)		**5,490**	(2,050)
Net assets		**14,572**	12,536

	Notes	**2018**	2017
		HK$'000	*HK$'000*
EQUITY			
Share capital		**190,985**	178,128
Reserves		**(176,413)**	(183,381)
Equity/(Capital deficiency) attributable to owners of the Company		**14,572**	(5,253)
Non-controlling interests		**–**	17,789
Total equity		**14,572**	12,536

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 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 consolidated financial statements for the year ended 31 December 2018 were approved for issue by the board of directors on 29 March 2019.

2. ADOPTION OF NEW OR AMENDED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

2.1 New or amended HKFRSs effective for annual period beginning on or after 1 January 2018

In the current year, the Group has applied new standards, amendments and interpretations 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 ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Except as explained below, the adoption of new or amended HKFRSs has no material impact on the Group's financial statements.

HKFRS 9, Financial Instruments

HKFRS 9 replaces HKAS 39 "Financial Instruments: Recognition and Measurement" and the Group has applied HKFRS 9 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.

The date of initial application (i.e. the date on which the Group has assessed its existing financial assets and 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 continue to be recognised 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 as at 31 December 2017 continues to be reported under HKAS 39 and have not been restated.

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. Previously, the Group presented revenue from contracts with customers and interest revenue in a single line item.

(a) Classification and measurement

Under HKFRS 9, all recognised financial assets are required to be measured subsequently 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. HKFRS 9 basically retains the existing requirements in HKAS 39 for the classification and measurements of financial liabilities.

The directors of the Company reviewed and assessed the Group's existing financial instruments 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 instruments 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

- there is no change in the measurement of the Group's investments in equity instruments that are held for trading; those instruments were and continue to be measured at fair value through profit or loss.

The following table summarises the measurement categories and their carrying amount determined in accordance with HKAS 39 and HKFRS 9 for each class of the Group's financial assets as at 1 January 2018:

	Measurement category		Carrying amount	
	HKAS 39	**HKFRS 9**	**HKAS 39**	**HKFRS 9**
			HK$'000	***HK$'000***
Financial assets				
Other assets	Loans and receivables	Amortised cost	1,730	1,730
Trade receivables	Loans and receivables	Amortised cost	64,260	64,260
Other receivables	Loans and receivables	Amortised cost	4,212	4,212
Held for trading investments	Fair value through profit or loss	Fair value through profit or loss	39,616	39,616
Trust bank balances held on behalf of clients	Loans and receivables	Amortised cost	221,581	221,581
Cash and cash equivalents	Loans and receivables	Amortised cost	87,556	87,556

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 the current year.

(b) *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.

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:

- Trade receivables from clearing house are usually settled a few days after the execution of relevant transactions. Trade receivables from asset management services rarely default, given the Group manages assets worth multiples of any outstanding fees on behalf of those clients.

- Trade receivables from margin clients and money lending services are collateralised and have sufficiently low "Loan to value" ratio.

- All bank balances are held with reputable banking institutions and other assets mainly represented deposits with the clearing houses which are governed under the Hong Kong Securities and Futures Ordinance.

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 impact of expected credit losses on the Group's financial position and financial performance as at 1 January 2018 was insignificant.

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 is recognised when (or as) the entity satisfies its performance obligation by transferring promised goods or service to a customer. A good or service is transferred to a customer when, or as, the customer obtains control of that good or service. Furthermore, for contracts that contain variable consideration, revenue is recognised at an amount to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

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, if any, are adjusted at the opening balance of equity as at 1 January 2018 and prior period comparatives are not restated.

In addition, 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.

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.

2.2 New or amended HKFRSs that have been issued but are not yet effective

At the date of authorisation of these financial statements, certain new or amended HKFRSs have been issued but are not yet effective. The Group has not early adopted these new or amended HKFRSs in the financial statements for the year ended 31 December 2018. The directors of the Company anticipate that these pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncement.

Information on new or amended HKFRSs that have not been adopted early by the Group but expected to have impact on the Group's accounting policies is provided below. Other new or amended HKFRSs have been issued but are not yet effective and not adopted in advance are not expected to have a material impact on the Group's consolidated financial statements.

HKFRS 16, Leases

The HKICPA has published the new lease standard in May 2016. The new standard will have a significant impact on many entities across various industries. HKFRS 16 will supersede HKAS 17 "Leases" and the related interpretations.

From the perspective as a lessee, under the existing standard, leases are classified as either finance lease or operating lease, resulting in different accounting treatment. Finance leases are required to be accounted for "On Balance Sheet" (i.e. lease asset and corresponding liabilities are recognised in the statement of financial position); while operating lease is accounted for "Off Balance Sheet" where no asset or liabilities are recognised and the lease expenses are recognised on a straight-line basis along the lease period. Under the new standard, "On Balance Sheet" accounting treatment is required for all leases, except for certain short-term leases and leases of low-value assets.

From the perspective as a lessor, HKFRS 16 substantially carried forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

HKFRS 16 is effective for accounting period beginning on 1 January 2019. The Group plans to use the modified retrospective approach for the adoption of HKFRS 16 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019 and will not restate the comparative information. As at 31 December 2018, the Group has non-cancellable operating lease commitments of HK$5,905,000 for which the lease term ends within 12 months of the date of initial application. The Group plans to take advantage of the practical expedients to account for leases with a remaining term of twelve months or less from the date of application as short-term leases (i.e. not to recognise on the statement of the financial position) even though the initial term of the leases from lease commencement date may have been more than twelve months. Accordingly, the Group expects that the transition adjustments to be made upon the initial adoption of HKFRS 16 will not be material. However, the expected changes in accounting policies as described above could have a material impact on the Group's financial statements from 2019 onwards.

3. BASIS OF PREPARATION

The Group had incurred losses after tax of approximately HK$82 million (2017: losses after tax of HK$185 million) and net operating cash outflows of approximately HK$14 million (2017: net operating cash inflows of HK$62 million) for the year ended 31 December 2018. As at 31 December 2018, the Group's liabilities included borrowings with principal amount of approximately HK$80 million (2017: Nil) which is repayable within three months from 31 December 2018 and the Group had cash and cash equivalents of approximately HK$47 million (2017: HK$88 million) and net assets of approximately HK$15 million (2017: HK$13 million). 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 therefore that, it may be unable 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 plans and measures:

- subsequent to the end of the reporting period, the Group had entered into an agreement with an independent third party for borrowings of HK$90 million due in June 2019, approximately HK$84.8 million of which was applied for the settlement of borrowings as at 31 December 2018 with the remaining approximately HK$5.2 million being applied as general working capital of the Group;

- the Group is soliciting for further financing arrangements which include placing of new shares to new potential investors, for the future repayment of borrowings of HK$90 million due in June 2019 and general working capital purpose;

- the Group shall continuously review and monitor its receivables in order to ensure the receivables are recovered on time; and

- the Group shall expand its existing business from the proceeds received from the additional financing and shall continue to apply various measures to tighten its operating expenditures in order make improvements in cash inflow from its operations.

Having regard to the cash flow projections of the Group, which are prepared assuming that the above-mentioned plans and 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 31 December 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. The effect of these adjustments has not yet been reflected in the financial statements.

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 and futures contracts, 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.

2018	Securities brokerage and financial services *HK$'000*	Asset management services *HK$'000*	Proprietary trading *HK$'000*	Trading business *HK$'000*	Total *HK$'000*
Reportable segment revenue					
External customers					
– Fee and commission income	1,604	30,095	–	–	31,699
– Interest income	2,447	–	–	–	2,447
	4,051	30,095	–	–	34,146
Inter-segment	–	–	–	–	–
	4,051	30,095	–	–	34,146
Fee and commission income from external customers					
– Timing of revenue recognition					
Point in time	1,604	–	–	–	1,604
Over time	–	30,095	–	–	30,095
	1,604	30,095	–	–	31,699
– Geographical region					
Hong Kong	1,604	29,954	–	–	31,558
Mainland China	–	141	–	–	141
	1,604	30,095	–	–	31,699
Reportable segment result	(7,828)	2,778	(31,238)	(349)	(36,637)
Impairment losses on trading rights	3,322	–	–	–	3,322
Depreciation	56	72	15	–	143
Fair value loss on held for trading investments	–	–	28,155	–	28,155
Finance costs	1	–	–	–	1
Reportable segment assets	54,665	37,181	6,955	56	98,857
Expenditures for additions to non-current segment assets*	–	40	–	–	40
Reportable segment liabilities	47,130	1,351	1,306	49	49,836

2017	Securities brokerage and financial services *HK$'000*	Asset management services *HK$'000*	Proprietary trading *HK$'000*	Trading business *HK$'000*	Total *HK$'000*
Reportable segment revenue					
– Fee and commission income	14,983	45,437	–	–	60,420
– Interest income	2,827	–	–	–	2,827
	17,810	45,437	–	–	63,247
Inter-segment	–	247	–	–	247
	17,810	45,684	–	–	63,494
Fee and commission income from external customers					
– Timing of revenue recognition					
Point in time	14,983	–	–	–	14,983
Over time	–	45,437	–	–	45,437
	14,983	45,437	–	–	60,420
– Geographical region					
Hong Kong	14,983	44,486	–	–	59,469
Mainland China	–	951	–	–	951
	14,983	45,437	–	–	60,420
Reportable segment result	1,893	8,155	(30,848)	(2,325)	(23,125)
Impairment losses on trade receivables	–	637	–	–	637
Decrease in third party interests in collective investment schemes	–	–	5,325	–	5,325
Depreciation	127	74	15	51	267
Fair value loss on held for trading investments	–	–	33,394	–	33,394
Finance costs	2	–	–	–	2
Reportable segment assets	264,652	35,732	39,967	59	340,410
Expenditures for additions to non-current segment assets*	119	18	2	–	139
Reportable segment liabilities	239,002	1,838	313	53	241,206

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 other income; equity-settled share-based payment expense, directors' emoluments; interest expenses on convertible bonds and loans from a substantial shareholder, a director of the Company and a related company; loss on disposal of subsidiaries, provision for settlement of convertible bonds (including any reversal), 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 do not include 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 do not include borrowings, convertible bonds, provision for settlement of 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 segments are reconciled to the Group's key financial figures as presented in the financial statements as follows:

	2018	2017
	HK$'000	*HK$'000*
Reportable segment revenue	**34,146**	63,494
Elimination of inter-segment revenue	**–**	(247)
Group's revenue	**34,146**	63,247
Reportable segment result	**(36,637)**	(23,125)
Other income	**211**	63
Equity-settled share-based payment expense	**–**	(9,520)
Finance costs	**(28,276)**	(27,506)
Loss on disposal of subsidiaries	**(2,919)**	–
Reversal of provision/(Provision) for settlement of convertible bonds	**4,394**	(33,708)
Share of results of an associate	**(1,723)**	(31,937)
Impairment loss on interests in an associate	**–**	(40,791)
Corporate expenses**	**(15,374)**	(15,659)
Group's loss before income tax	**(80,324)**	(182,183)

	2018	2017
	HK$'000	*HK$'000*
Reportable segment assets	**98,857**	340,410
Interests in an associate	**–**	1,863
Deferred tax assets	**–**	144
Current tax assets	**938**	–
Cash and cash equivalents	**47,262**	87,556
Corporate assets	**2,605**	2,847
Group's assets	**149,662**	432,820
Reportable segment liabilities	**49,836**	241,206
Borrowings	**80,421**	–
Convertible bonds	**–**	143,517
Provision for settlement of convertible bonds	**–**	33,708
Current tax liabilities	**–**	606
Corporate liabilities	**4,833**	1,247
Group's liabilities	**135,090**	420,284

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

	Reportable segment total		Unallocated		Consolidated	
	2018	2017	**2018**	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Other material items						
Depreciation	**143**	267	**94**	151	**237**	418
Finance costs	**1**	2	**28,276**	27,506	**28,277**	27,508
Expenditures for additions to non-current assets*	**40**	139	**23**	243	**63**	382

The following table sets out information about the geographical location of the Group's revenue from external customers and the Group's non-current assets*. The geographical location of customers is based on the location at which the subsidiary operates. The geographical location of non-current assets* is based on the physical location of the asset, in the case of property, plant and equipment, the location of the operations to which they are allocated, in the case of trading rights and goodwill, and the location of the operations, in the case of interests in an associate.

	Revenue from external customers		Non-current assets*	
	2018	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong (domicile)#	**34,005**	62,296	**7,343**	10,831
Mainland China	**141**	951	**9**	1,881
	34,146	63,247	**7,352**	12,712

* Non-current assets exclude deferred tax assets and other assets.

\# The Company is an investment holding company incorporated in Bermuda where the Group does not have any activities. The Group has the majority of its operations in Hong Kong, and therefore, Hong Kong is considered as the Group's place of domicile for the purpose of disclosures as required by HKFRS 8, Operating Segments.

The Group's customers include the following with whom transactions have exceeded 10% of the Group's revenue:

	2018 *HK$'000*	2017 *HK$'000*
Customer A (note i)	**18,669**	17,813
Customer B (note ii)	**–**	7,031

Notes:

i. Revenue from this customer is attributable to asset management services segment

ii. Revenue from this customer is attributable to securities brokerage and financial services segment

5. FEE AND COMMISSION INCOME, INTEREST INCOME

	2018 *HK$'000*	2017 *HK$'000*
Fee and commission income		
Securities brokerage and financial services segment:		
– Securities and futures brokerage	**1,270**	3,501
– Financial advisory	**–**	18
– Underwriting and placing	**–**	11,107
– Others	**334**	357
	1,604	14,983
Asset management services segment:		
– Fund and portfolio management and investment advisory	**30,095**	45,407
– Others	**–**	30
	30,095	45,437
	31,699	60,420
Interest income		
– Margin financing and money lending	**2,447**	2,827
	2,447	2,827
	34,146	63,247

6. OTHER GAINS AND LOSSES

	2018	2017
	HK$'000	*HK$'000*
Changes in fair value of held for trading investments	**(28,155)**	(33,394)
Changes in third party interests in collective investment schemes	**–**	5,325
Impairment losses on trading rights	**(3,322)**	–
Impairment losses on trade receivables	**–**	(637)
Loss on disposal of subsidiaries	**(2,919)**	–
Net foreign exchange gains	**237**	78
Net losses on disposals of property, plant and equipment	**–**	(2)
Others	**172**	5
	(33,987)	(28,625)

7. OTHER INCOME

	2018	2017
	HK$'000	*HK$'000*
Interest income from banks and others	**211**	27
Sundry income	**–**	36
	211	63

8. FINANCE COSTS

	2018	2017
	HK$'000	*HK$'000*
Effective interest on liability component of convertible bonds	**27,153**	27,228
Interest on bank and other borrowings	**2**	4
Interest on loans from a substantial shareholder, a director of the Company and a related company	**1,122**	276
	28,277	27,508

9. LOSS BEFORE INCOME TAX

	2018	2017
	HK$'000	*HK$'000*
Loss before income tax is arrived at after charging:		
Staff costs, including directors' emoluments		
– Fees, salaries, allowances and bonuses	**29,037**	45,806
– Equity-settled share-based payments	**–**	9,520
– Retirement benefit scheme contributions*	**487**	822
	29,524	56,148
Other expenses		
– Auditor's remuneration	**1,400**	1,400
– Commission expense	**–**	1,350
– Entertainment and gifts	**992**	1,354
– Minimum lease payments under operating leases in respect of land and buildings	**9,902**	9,419
– Other professional fees	**5,059**	2,939
– System license and subscriptions	**1,162**	2,269
– Others	**6,812**	7,627
	25,327	26,358

* The amount included forfeited contributions of HK$572,000 (2017: HK$525,000) in respect of employees who left employment prior to such contributions vesting fully in accordance with the rules of the MPF Scheme.

10. 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 at 8.25%, and profits above HK$2 million are taxed at 16.5%. The profits of corporation not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

For the year ended 31 December 2018, Hong Kong profits tax is calculated in accordance with the two-tiered profits tax rates regime. For year ended 31 December 2017, Hong Kong profits tax was provided at a flat rate of 16.5% on the estimated assessable profits.

	2018	2017
	HK$'000	*HK$'000*
Current tax – Hong Kong profits tax		
– Provision for current year	**1,327**	2,511
– Over provision in respect of prior years	**(141)**	(170)
	1,186	2,341
Deferred tax		
Write-down of deferred tax assets	**144**	–
Total income tax expense	**1,330**	2,341

11. DIVIDENDS

No dividend was proposed or paid during the years ended 31 December 2018 and 2017, nor has any dividend been proposed since the end of the reporting period.

12. LOSS PER SHARE

Basic loss per share

The calculation of basic loss per share is based on the loss attributable to owners of the Company of approximately HK$81,646,000 (2017: loss of approximately HK$184,507,000) and the weighted average number of 3,575,243,574 (2017: 3,553,329,679) ordinary shares in issue during the year.

Diluted loss per share

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 decrease in loss per share.

13. INTERESTS IN AN ASSOCIATE

	2018 *HK$'000*	2017 *HK$'000*
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 on 28 June 2018, the Company no longer held any of the interest in XHME and XHME ceased to be recognised as an associate of the Company.

* rounded to the nearest one percent

14. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	2018 *HK$'000*	2017 *HK$'000*
Trade receivables	**36,716**	64,260
Other receivables and prepayments	**3,429**	5,221
	40,145	69,481

The analysis of trade receivables is as follows:

	2018 *HK$'000*	2017 *HK$'000*
Arising from the business of dealing in securities and futures contracts		
– Hong Kong Securities Clearing Company Limited ("HKSCC") and HKFE Clearing Corporation Limited ("HKCC")	**60**	15,967
– Margin clients	–	1,309
Arising from asset management services	**29,415**	26,539
Arising from money lending services	**7,241**	20,444
Arising from proprietary trading	–	1
	36,716	64,260

The normal settlement terms of trade receivables arising from the business of dealing in securities are one to two business days after the respective trade dates. The normal settlement terms of trade receivables arising from the business of dealing in futures contracts are one business day after the respective trade dates. The amounts due from HKSCC and 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% (2017: 3%) per annum. The amounts due from HKCC are repayable on demand except for the required margin deposits for the trading of futures contracts.

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

At 31 December 2018, amount due from HKSCC represents unsettled trade transacted on the last two business days prior to the end of the reporting period and amount due from HKCC represents undrawn deposits at the end of the reporting period. None of the amounts arising from money lending services are past due at the reporting date. At 31 December 2017, the amounts due from HKSCC and margin clients and amounts arising from money lending services and proprietary trading were neither past due nor impaired. The following table provides information about the exposure to credit risk for amounts arising from asset management services:

	2018	2017
	HK$'000	*HK$'000*
Not yet past due	**8,903**	–
0 – 30 days past due	**–**	3,496
31 – 60 days past due	**–**	2,803
61 – 90 days past due	**4,705**	2,917
91 – 180 days past due	**7,530**	8,256
181 – 365 days past due	**8,151**	6,638
Over 365 days past due	**126**	2,429
	29,415	26,539

15. HELD FOR TRADING INVESTMENTS

	2018	2017
	HK$'000	*HK$'000*
Listed equity securities	**5,263**	37,841
Unlisted investment funds *(note)*	**1,565**	1,775
	6,828	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.

16. TRADE AND OTHER PAYABLES AND ACCRUALS

	2018	2017
	HK$'000	*HK$'000*
Trade payables arising from the business of dealing in securities and futures contracts		
– Cash clients	**44,354**	237,628
– Margin clients	**1,134**	460
	45,488	238,088
Other payables and accruals	**8,731**	4,365
	54,219	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 normal settlement terms of trade payables arising from the business of dealing in futures contracts are one business day after the respective trade dates. The amounts payable to cash and margin clients are repayable on demand except for the required margin deposits for the trading of futures contracts. 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.

FINAL DIVIDEND

The Board does not recommend the payment of final dividend for the year ended 31 December 2018 (2017: Nil).

BUSINESS AND FINANCIAL REVIEW

For the year ended 31 December 2018, the fee and commission income of the Group substantially decreased to approximately HK$31.7 million, representing 47.5% decrease as compared with approximately HK$60.4 million for the year ended 31 December 2017. For the year ended 31 December 2018, the interest income of the Group decreased to approximately HK$2.4 million due to decreased income from money lending business, representing 13.4% decrease as compared with approximately HK$2.8 million for the year ended 31 December 2017. Loss for the year ended 31 December 2018 was approximately HK81.6 million, as compared with loss of approximately HK$184.5 million of the year ended 31 December 2017. Such decrease in loss is primarily attributable to decrease in staff costs, the absence of impairment loss on interest of and decrease in loss on share of results of Xinhua (Daqing) Merchandise Exchange Company Limited and without the provision for settlement of convertible bonds for the year ended 31 December 2018.

In 2018, the global economy continued its growth momentum in the previous year but faced a more challenging environments. 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 2018 weakened as compared to 2017 due to increased adverse effects of external environment.

In 2018, dragged by the news of trade war between China and the US, the stock market in Hong Kong swung downward repeatedly, with approximately 9,000 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 trade war between China and the US, the stock market in Hong Kong fluctuated after a surge.

During the year ended 31 December 2018, the total revenue of Sheng Yuan Financial Services Group Limited and its subsidiaries (collectively, the “SYFS Group”) decreased by nearly 47.6% to approximately HK$31.7 million (2017: HK$60.5 million).

For securities business, revenue from securities brokerage and financial services during the year ended 31 December 2018 decreased significantly by 77.0% to approximately HK$4.1 million (2017: approximately HK$17.8 million); segment result recorded a loss of approximately HK$7.8 million (2017: profit of approximately HK$1.9 million). Such decrease in revenue was mainly due to the absence of income from placement for the year ended 31 December 2018 as a result of a comparably less active placing market caused by the repeated downswing of stock market for the year.

For asset management business, Sheng Yuan Asset Management Limited ("SYAM") acts as the fund manager or investment adviser for 8 funds and 5 discretionary accounts. The total assets under management (the "AUM") of SYAM have decreased by nearly 24.0% to approximately HK$7.9 billion for the year ended 31 December 2018 (2017: approximately HK$10.4 billion). During the year ended 31 December 2018, SYAM recorded segment revenue of approximately HK$30.1 million (2017: approximately HK$45.7 million), representing a decrease of approximately 34.1%; it recorded segment profit of approximately HK$2.8 million (2017: approximately HK$8.2 million), representing a decrease of approximately 65.9%. The decrease in profit was mainly due to the decrease in management fee and investment advisory fee as a result of the liquidation of some funds upon the completion of their investment projects. SYAM knows well of the dynamics in the capital market and owns experienced investment team and unique analysis and advice. Currently, it manages various investment projects and is organizing fund-raising activities for funds and special accounts to maximize the return to its investors after keeping risks under control.

For proprietary trading business, the SYFS Group mainly invests in the listed shares and private funds in Hong Kong market. During the year ended 31 December 2018, as no additional investment in proprietary trading business, the segment loss from proprietary trading business was approximately HK$31.2 million (2017: HK$30.8) million). Such loss was mainly due to decrease in the market 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 year ended 31 December 2018. The segment loss for trading business for the year ended 31 December 2018 was approximately HK$0.3 million (2017: segment loss of HK$2.3 million).

Settlement of SYFS CBs

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 would 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 was granted by the Stock Exchange.

On 14 December 2018, the Company received a conversion notice from Team Effort to convert the Convertible Bonds in the principal amount of HK$90,000,000 into 257,142,857 shares of the Company at a conversion price of HK$0.35 each.

Issue of SYHL Bonds and its settlement

On 23 November 2017, the Company issued 8% interest convertible bonds (the "SYHL Bonds") due on 22 November 2018 in the aggregate principal amount of HK$10,000,000 and HK$100,000,000 to two individual subscribers ("Subscriber One" and "Subscriber Two" respectively).

On 22 November 2018, the Company redeemed one of the SYHL Bonds held by Subscriber One and paid the outstanding principal plus interest accrued thereon to Subscriber One . On the same day, the Company entered into a deed of settlement with Subscriber Two pursuant to which the Company would repay HK$24,032,876.71 to Subscriber Two in cash and entered into a loan agreement in the principal amount of HK$80,000,000 at an interest rate of 10% per annum due on 21 December 2018 with Subscriber Two (the "Loan Agreement") as a full and final settlement, and released by Subscriber Two, of the Company from all sums of money, debts, dues, contracts, covenants, bonds, actions, proceedings, accounts, claims, demands, liabilities and obligations that may arise out of or in respect of the SYHL Bonds held by Subscriber Two. A share charge over the Company's shares was provided by the single largest shareholder of the Company in connection with the Loan Agreement.

On 24 December 2018, the Company as borrower entered into a facility agreement (the "First Facility Agreement") with an independent third party lender (the "First Lender") to borrow a term loan in the principal amount of HK$80,000,000 from the First Lender at an interest rate of 24% per annum to be repayable in full on a date falling three months from the draw down date for refinancing all indebtedness of the Company under the Loan Agreement. Share charges over the Company's share were provided by various shareholders of the Company in connection with the First Facility Agreement.

Subsequently, on 22 March 2019, the Company entered into a facility agreement (the "Second Facility Agreement") with another independent third party lender (the "Second Lender") to borrow a term loan in the principal amount of HK$90,000,000 from the Second Lender at an interest rate of 24% per annum to be repayable in full on a date falling three months from the draw down date for (i) refinancing all indebtedness of the Company under the First Facility Agreement; (ii) payment of associated costs and expenses; and (iii) general working capital purposes of the Company. Share charges over the Company's share were also provided by various shareholders of the Company in connection with the Second Facility Agreement.

PROSPECTS

With the implementation of the "One Belt, One Road" initiative and the development of Guangdong-Hong Kong-Macau Greater Bay Area, Hong Kong, as a free and open economy, will further facilitate the cash flows between Hong Kong and Macau and Mainland China. We believe the fundamental of Mainland China's economy remains good and the People's Bank of China will maintain its monetary easing policy, which is expected to have a positive effect on and benefit Hong Kong economy. Therefore, we expect stable growth to continue.

Looking forward to 2019, Hong Kong will be exposed to increasing risks and difficulties, mainly from the evolvement of the trade war between China and the US, greater fluctuations in the financial markets arising from unclear interest rate policy of US Federal Reserve, the Brexit deadlock, economic slow down and credit squeeze in Mainland China and economic downturn in emerging markets.

The SYFS Group will focus on strengthen its platform of financial management service. Apart from the consolidation of its traditional brokerage business, Sheng Yuan Securities Limited will continue to 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 put 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.

ACQUISITION AND DISPOSAL

There was no material acquisition during the year ended 31 December 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 held any of the interest in XHME and XHME ceased to be recognised as an associate of the Company.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2018, cash and bank balances in general accounts maintained by the Group were approximately HK$47.3 million, representing a decrease of approximately 46.0% from approximately HK$87.6 million as at 31 December 2017. Balances in trust and segregated accounts were approximately HK$45.4 million (2017: HK$221.6 million). Trade and other receivables and prepayments were approximately HK$40.1 million as at 31 December 2018 (2017: HK$69.5 million), which mainly represented decreased receivables from money lending and securities brokerage business. Trade and other payables and accruals were approximately HK$54.2 million as at 31 December 2018 (2017: HK$242.5 million), which was due to decrease in trade payable from securities brokerage.

The Group's current assets and current liabilities as at 31 December 2018 were approximately HK$140.6 million (2017: HK$418.2 million) and approximately HK$135.1 million (2017: HK$420.3 million) respectively. The borrowings as at 31 December 2018 were approximately HK$80.4 million (2017: HK$nil). The gearing of the Group, measured as total debts to total assets, was at approximately 53.7% as at 31 December 2018 (2017: 33.2%). As at 31 December 2018, the Group recorded net assets of approximately HK$14.6 million (2017: HK$12.5 million). During the year ended 31 December 2018, the Group financed its operations with internally generated cash flow and funds from borrowings.

FOREIGN EXCHANGE RISK MANAGEMENT

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 year ended 31 December 2018, 257,142,857 shares of the Company were issued upon conversion of Convertible Bonds.

SIGNIFICANT SECURITIES INVESTMENTS

During the year ended 31 December 2018, the Group has no further investments in held-for-trading securities in Hong Kong. As at 31 December 2018, the Company held an aggregate of 145,294,903 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$21.0 million. As at 31 December 2018, such securities investment was at fair value of approximately HK$5.2 million (31 December 2017: HK$37.8 million), accounting for approximately 3.5% of the Group's total assets and the loss on the change in fair value for the year ended 31 December 2018 was approximately HK$15.7 million (31 December 2017: HK$16.7 million).

CONTINGENT LIABILITIES

As at 31 December 2018, the Group did not have any material contingent liabilities.

DIVIDEND POLICY

The Company has a dividend policy, the objective of which is to allow shareholders of the Company to participate in the Company's profits whilst retaining adequate reserves to sustain the Group's future growth. The declaration, form, frequency and amount of dividend paid by the Company must be in accordance with relevant laws and regulations and subject to the bye-laws of the Company. In deciding whether to declare any dividend, the Board will take into account a number of factors, including the financial results, the distributable reserves, the operations and liquidity requirements, and the current and future development plans of the Company. The Board will review the dividend policy of the Company as appropriate from time to time.

PLEDGE OF ASSETS

As at 31 December 2018, the Group did not have any pledged assets.

HUMAN RESOURCES

As at 31 December 2018, the Group employed 58 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, REDEMPTION OR SALE OF THE COMPANY'S LISTED SECURITIES

During the year ended 31 December 2018, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

AUDIT COMMITTEE

The Company has an Audit Committee which was established in accordance with Rule 3.21 of the Listing Rules for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audited results for the year ended 31 December 2018 have been reviewed by the Audit Committee. The Audit Committee comprises three members namely Mr. Lo Ka Wai (Chairman), Mr. Fung Tze Wa and Dr. Huan Guocang. All of them are independent non-executive Directors.

REMUNERATION COMMITTEE

The Remuneration Committee has been set up with written term of reference in accordance with the requirements of the Listing Rules. The Remuneration Committee comprises three independent non-executive Directors namely, Mr. Fung Tze Wa (Chairman), Dr. Huan Guocang and Mr. Lo Ka Wai.

NOMINATION COMMITTEE

The Nomination Committee has been set up with written term of reference in accordance with the requirements of the Listing Rules. The Nomination Committee comprises three independent non-executive Directors namely, Dr. Huan Guocang (Chairman), Mr. Fung Tze Wa and Mr. Lo Ka Wai.

CORPORATE GOVERNANCE PRACTICES

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 year ended 31 December 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, independent non-executive Directors and former independent non-executive Directors respectively, were unable to attend the annual general meeting of the Company held on 25 May 2018 as they had other business commitments.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (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 year ended 31 December 2018.

SCOPE OF WORK PERFORMED BY AUDITOR

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2018 as set out in the preliminary announcement have been agreed by the Company's auditor, BDO Limited ("BDO"), to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by BDO in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by BDO on the preliminary results announcement.

ANNUAL GENERAL MEETING

The annual general meeting of the Company (the "AGM") will be held on Thursday, 30 May 2019 in Hong Kong. The Notice of AGM will be published and despatched to the shareholders in due course.

CLOSURE OF REGISTER

The register of members of the Company will be closed from Monday, 27 May 2019 to Thursday, 30 May 2019, both days inclusive, during which period no transfer of ordinary shares will be registered. In order to determine the identity of ordinary shareholder(s) who is entitled to attend and vote at the AGM, all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Friday, 24 May 2019.

DETAILS OF THE INDEPENDENT AUDITOR'S REPORT

Qualified Opinion

In our opinion, except for the possible effects of the matters described in the "Basis for Qualified Opinion" section of our report, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Qualified Opinion

The Group had disposed of a subsidiary, Joinbo Holdings Limited ("JHL"), which indirectly owned the equity interest in an associate and had recognised a loss on disposal of subsidiaries of HK$2,919,000 for the year ended 31 December 2018. The Group also recognised its share of associate's loss of HK$1,723,000 for the year ended 31 December 2018 using the equity method of accounting prior to the disposal of JHL. 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 year ended 31 December 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$31,937,000 during the year ended 31 December 2017.

The Investee Company was not a listed entity in the PRC and we were unable to obtain relevant financial and other information of the Investee Company which we considered necessary and there were no alternative procedures which we could carry out to assess the carrying amount of the associate's investment in the Investee Company prior to the disposal of JHL. As such, we were unable to determine whether the Group's share of associate's loss of HK$1,723,000 and loss on disposal of subsidiaries of HK$2,919,000 for the year ended 31 December 2018 was fairly stated. The Group's share of loss of the associate and loss on disposal of subsidiaries for the year was also qualified due to the matter explained in the paragraph below.

Our audit opinion on the Group's consolidated financial statements for the year ended 31 December 2017 was qualified as there were insufficient audit evidence available to us relating to the impairment review of the Group's interest in associate as of 31 December 2017 and we were unable to obtain relevant financial and other information of the Investee Company which we considered necessary. Accordingly, we were unable to assess the carrying amount of the associate's investment in the Investee Company and therefore the Group's share of results of an associate and the impairment loss on interests in an associate for the year ended 31 December 2017 and interests in the associate as of 31 December 2017 as set out in our report dated 21 March 2018. The limitations leading to our qualified opinion remained unresolved during our audit of the Group's consolidated financial statements for the year ended 31 December 2018 and may have consequential impact on the Group's share of associate's loss of HK$1,723,000 and the loss on disposal of subsidiaries of HK$2,919,000 for the year ended 31 December 2018. Our audit opinion on the Group's consolidated financial statements for the year ended 31 December 2018 is also qualified because of the possible effect of this matter on the comparability of the related 2018 figures and the 2017 figures in the consolidated financial statements for the year ended 31 December 2018.

Material Uncertainty Related to Going Concern

We draw attention to note 3.1 in the consolidated financial statements, which indicates that the Group had incurred loss after tax of approximately HK$82 million and net operating cash outflows of approximately HK$14 million for the year ended 31 December 2018. As stated in note 3.1, these conditions, along with other matters as set forth in note 3.1, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Note: Details of "note 3.1 to the consolidated financial statements" is included in the annual report for the year ended 31 December 2018.

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This results announcement is published on the websites of the Company (www.shengyuan.hk) and the Stock Exchange (www.hkexnews.hk). The annual report for the year ended 31 December 2018 of the Company containing all information required by the Listing Rules will be dispatched to shareholders of the Company and available on the above websites in due course.

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

Hong Kong, 29 March 2019

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. Fung Tze Wa, Dr. Huan Guocang and Mr. Lo Ka Wai (all being independent non-executive Directors).