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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 2019

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 2019 together with the comparative figures for the corresponding year ended 31 December 2018 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	<i>Notes</i>	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Fee and commission income	5	8,804	31,699
Interest income	5	40	2,447
		8,844	34,146
Other gains and losses	6	(17,108)	(33,987)
Other income	7	618	211
Staff costs	9	(25,723)	(29,524)
Depreciation		(1,542)	(237)
Finance costs	8	(23,294)	(28,277)
Reversal of provision		–	4,394
Other expenses	9	(19,360)	(25,327)
Share of results of an associate		–	(1,723)
Loss before income tax	9	(77,565)	(80,324)
Income tax credit/(expense)	10	201	(1,330)
Loss for the year		(77,364)	(81,654)

	<i>Notes</i>	2019 HK\$'000	2018 <i>HK\$'000</i>
Other comprehensive income			
Item that may be reclassified subsequently to profit or loss			
— Exchange differences on translating foreign operations		14	(424)
Exchange differences arising during the year		14	(424)
Reclassification adjustments relating to foreign operations disposed of during the year		<u>—</u>	<u>6,528</u>
Other comprehensive income for the year		<u>14</u>	<u>6,104</u>
Total comprehensive income for the year		<u>(77,350)</u>	<u>(75,550)</u>
Loss for the year attributable to:			
— Owners of the Company		(77,334)	(81,646)
— Non-controlling interests		<u>(30)</u>	<u>(8)</u>
		<u>(77,364)</u>	<u>(81,654)</u>
Total comprehensive income for the year attributable to:			
— Owners of the Company		(77,320)	(75,542)
— Non-controlling interests		<u>(30)</u>	<u>(8)</u>
		<u>(77,350)</u>	<u>(75,550)</u>
		<i>HK cents</i>	<i>HK cents</i>
Loss per share			
— Basic	<i>12</i>	<u>(2.02)</u>	<u>(2.28)</u>
— Diluted		<u>(2.02)</u>	<u>(2.28)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	<i>Notes</i>	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		2,911	352
Right-of-use assets	<i>16</i>	8,612	–
Trading rights		–	–
Goodwill		–	7,000
Other assets		1,705	1,730
		<hr/> 13,228	<hr/> 9,082
Current assets			
Trade and other receivables and prepayments	<i>13</i>	4,133	40,145
Held for trading investments	<i>14</i>	26	6,828
Current tax assets		678	938
Trust bank balances held on behalf of clients		17,394	45,407
Cash and cash equivalents		29,840	47,262
		<hr/> 52,071	<hr/> 140,580
Current liabilities			
Trade and other payables and accruals	<i>15</i>	18,739	54,219
Borrowings		100,142	80,421
Lease liabilities	<i>16</i>	1,896	–
Contract liabilities		450	450
		<hr/> 121,227	<hr/> 135,090
Net current (liabilities)/assets		<hr/> (69,156)	<hr/> 5,490
Non-current liabilities			
Lease liabilities	<i>16</i>	6,850	–
Net (liabilities)/assets		<hr/> (62,778)	<hr/> 14,572

	<i>Notes</i>	2019 HK\$'000	2018 <i>HK\$'000</i>
EQUITY			
Share capital		190,985	190,985
Reserves		(253,763)	(176,413)
		<hr/>	<hr/>
(Capital deficiency)/Equity attributable to owners of the Company		(62,778)	14,572
Non-controlling interests		–	–
		<hr/>	<hr/>
(Capital deficiency)/Total equity		(62,778)	14,572
		<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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 26th Floor, 238 Des Voeux Road Central, Sheung Wan, 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 2019 were approved for issue by the board of directors on 31 March 2020.

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 2019

The Hong Kong Institute of Certified Public Accountants (“HKICPA”) has issued a number of new or amended HKFRSs that are first effective for the current accounting period of the Group. HKFRSs include all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the HKICPA.

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Annual Improvements 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Except as explained below, the adoption of new or amended HKFRSs has no material impact on the Group’s financial statements.

HKFRS 16 “Leases” (“HKFRS 16”)

HKFRS 16 replaces HKAS 17 “Leases” (“HKAS 17”) along with three interpretations, HK(IFRIC)-Int 4, “Determining whether an Arrangement contains a Lease” (“HK(IFRIC)-Int 4”), HK(SIC)-Int 15 “Operating Leases — Incentives” and HK(SIC)-Int 27 “Evaluating the Substance of Transactions Involving the Legal Form of a Lease”. In the current accounting year, the Group had applied HKFRS 16 using the modified retrospective approach with a date of initial application of 1 January 2019, under which the cumulative effect of initial application, if any, is recognised in the opening balance of equity as at 1 January 2019. Accordingly, the comparative information have not been restated (i.e. it is presented, as previously reported, under HKAS 17 and related interpretations). HKFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating and finance leases and requiring the recognition of a right-of-use asset and a lease liability at the lease commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. The impact of the adoption of HKFRS 16 on the Group’s financial statements is described below.

Impact of the New Definition of a Lease

The change in definition of a lease mainly relates to the concept of control. HKFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. A contract conveys the right to control the use of an identified asset for a period of time when the customer, throughout the period of use, has both: (a) the right to obtain substantially all of the economic benefits from use of the identified asset and (b) the right to direct the use of the identified asset.

The Group has made use of the practical expedient available on transition to HKFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with HKAS 17 and HK(IFRIC)-Int 4 continues to be applied to leases entered or modified before 1 January 2019 and the Group applies the definition of a lease and related guidance set out in HKFRS 16 to all lease contracts entered into or modified on or after 1 January 2019 (whether it is a lessor or a lessee in the lease contract). In preparation for the first-time application of HKFRS 16, the Group assessed that the new definition in HKFRS 16 will not change significantly the scope of contracts that meet the definition of a lease for the Group.

Impact on Lessee Accounting

HKFRS 16 changes how the Group accounts for leases previously classified as operating leases under HKAS 17, which were “off-balance-sheet”. Upon application of HKFRS 16, for all leases (except as noted below), the Group (a) recognises right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of future lease payments; and (b) recognises depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss.

Under HKFRS 16, right-of-use assets are tested for impairment in accordance with HKAS 36 “Impairment of Assets”. This replaces the previous requirement to recognise a provision for onerous lease contracts.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the Group has opted to recognise a lease expense on a straight-line basis as permitted by HKFRS 16. This expense is presented within other expenses in the consolidated statement of profit or loss.

Financial Impact on Initial Application of HKFRS 16

On transition to HKFRS 16, the Group applied a practical expedient of accounting for leases previously classified as operating leases under HKAS 17 with a remaining lease term of twelve months or less as at 1 January 2019 as short-term leases and using hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

As at 31 December 2018, the Group had operating lease commitment of HK\$5,905,000 for which the lease term ends within 12 months of the date of initial application and the leases do not include a renewal option. Accordingly, the Group has not recognised any right-of-use assets nor lease liabilities as at 1 January 2019 but to account for payments on these leases as an expense on a straight-line basis over the remaining lease term.

The Interpretation supports the requirements of HKAS 12, Income Taxes, by providing guidance over how to reflect the effects of uncertainty in accounting for income taxes.

Under the Interpretation, the entity shall determine whether to consider each uncertain tax treatment separately or together based on which approach better predicts the resolution of the uncertainty. The entity shall also assume the tax authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If the entity determines it is probable that the tax authority will accept an uncertain tax treatment, then the entity should measure current and deferred tax in line with its tax filings. If the entity determines it is not probable, then the uncertainty in the determination of tax is reflected using either the “most likely amount” or the “expected value” approach, whichever better predicts the resolution of the uncertainty. The interpretation has had no material impact on the Group’s consolidated financial statements.

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

The following new or amended HKFRSs, potentially relevant to the Group’s financial statements, have been issued but are not yet effective and have not been early adopted by the Group. 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.

Amendments to HKFRS 3	Definition of a business ¹
Amendments to HKAS 1 and HKAS 8	Definition of material ¹

¹ Effective for annual period beginning on or after 1 January 2020

Amendments to HKFRS 3 — Definition of a business

The amendments clarify that a business must include, as a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs, together with providing extensive guidance on what is meant by a “substantive process”.

Additionally, the amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs, whilst narrowing the definition of “outputs” and a “business” to focus on returns from selling goods and services to customers, rather than on cost reductions.

An optional concentration test has also been added that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

Amendments to HKAS 1 and HKAS 8 — Definition of material

The amendments clarify the definition and explanation of “material”, aligning the definition across all HKFRS Standards and the Conceptual Framework, and incorporating supporting requirements in HKAS 1 into the definition.

The Group is not yet in a position to state whether these new pronouncements will result in substantial changes to the Group’s accounting policies and financial statements.

3. BASIS OF PREPARATION

The Group had incurred losses after tax of approximately HK\$77 million (2018: losses after tax of approximately HK\$82 million) and net operating cash outflows of approximately HK\$33 million (2018: net operating cash outflows of approximately HK\$14 million) for the year ended 31 December 2019, and as at 31 December 2019, the Group had net current liabilities and net liabilities of approximately HK\$69 million (31 December 2018: net current assets of approximately HK\$5 million) and HK\$63 million (31 December 2018: net assets of approximately HK\$15 million), respectively. As at 31 December 2019, the Group's liabilities included borrowings with principal amount of approximately HK\$100 million (2018: HK\$80 million) from a wholly-owned subsidiary of the Company's substantial shareholder, Yuanyin Holdings Limited, which will be due in October 2020. 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, the Group 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 31 December 2019, the Company had entered into supplementary agreement with a wholly-owned subsidiary of its substantial shareholder, Yuanyin Holdings Limited, to extend the repayment date of the existing borrowing with principal amount of approximately HK\$100 million as at 31 December 2019 to at least twelve months from the date of reporting;
- The substantial shareholder, Yuanyin Holdings Limited, has agreed to provide sufficient working capital to satisfy the Group's working capital and other financing requirement through continual renewal of borrowings or continual provision of additional financing to the Group; and
- The Group is in the process of soliciting potential new customers and shall continue to apply various measures to tighten its operating expenditures in order to improve its financial performance and cash flows.

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 net realisable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities. The effect of these adjustments has not 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.

2019	Securities brokerage and financial services <i>HK\$'000</i>	Asset management services <i>HK\$'000</i>	Proprietary trading <i>HK\$'000</i>	Trading business <i>HK\$'000</i>	Total <i>HK\$'000</i>
Reportable segment revenue					
External customers					
— Fee and commission income	330	8,474	–	–	8,804
— Interest income	40	–	–	–	40
	<u>370</u>	<u>8,474</u>	<u>–</u>	<u>–</u>	<u>8,844</u>
Inter-segment	–	–	–	–	–
	<u>370</u>	<u>8,474</u>	<u>–</u>	<u>–</u>	<u>8,844</u>
Fee and commission income from external customers					
— Timing of revenue recognition					
Point in time	330	–	–	–	330
Over time	–	8,474	–	–	8,474
	<u>330</u>	<u>8,474</u>	<u>–</u>	<u>–</u>	<u>8,804</u>
— Geographical region					
Hong Kong	330	8,474	–	–	8,804
Mainland China	–	–	–	–	–
	<u>330</u>	<u>8,474</u>	<u>–</u>	<u>–</u>	<u>8,804</u>
Reportable segment result	<u>(12,746)</u>	<u>(16,321)</u>	<u>(7,059)</u>	<u>(2,240)</u>	<u>(38,366)</u>
Depreciation	21	60	12	–	93
Impairment losses on goodwill	–	7,000	–	–	7,000
Loss allowances on trade receivables	–	4,570	–	–	4,570
Fair value loss on held for trading investments	–	–	5,610	–	5,610
Finance costs	1	–	–	–	1
Reportable segment assets	<u>19,403</u>	<u>1,663</u>	<u>194</u>	<u>64</u>	<u>21,324</u>
Expenditures for additions to non-current segment assets*	–	–	–	–	–
Reportable segment liabilities	<u>17,599</u>	<u>847</u>	<u>40</u>	<u>3</u>	<u>18,489</u>

2018	Securities brokerage and financial services <i>HK\$'000</i>	Asset management services <i>HK\$'000</i>	Proprietary trading <i>HK\$'000</i>	Trading business <i>HK\$'000</i>	Total <i>HK\$'000</i>
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

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; directors' emoluments; interest expenses on loans from a director of the Company and related companies; gain or loss on disposal of subsidiaries, share of results of 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 current 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 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:

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Reportable segment revenue	<u>8,844</u>	<u>34,146</u>
Group's revenue	<u><u>8,844</u></u>	<u><u>34,146</u></u>
Reportable segment result	(38,366)	(36,637)
Other income	618	211
Finance costs	(23,293)	(28,276)
Gain/(Loss) on disposal of subsidiaries	10	(2,919)
Reversal of provision for settlement of convertible bonds	–	4,394
Share of results of an associate	–	(1,723)
Corporate expenses**	<u>(16,534)</u>	<u>(15,374)</u>
Group's loss before income tax	<u><u>(77,565)</u></u>	<u><u>(80,324)</u></u>

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Reportable segment assets	21,324	98,857
Current tax assets	678	938
Cash and cash equivalents	29,840	47,262
Corporate assets	13,457	2,605
	<hr/>	<hr/>
Group's assets	65,299	149,662
	<hr/> <hr/>	<hr/> <hr/>
Reportable segment liabilities	18,489	49,836
Borrowings	100,142	80,421
Corporate liabilities	9,446	4,833
	<hr/>	<hr/>
Group's liabilities	128,077	135,090
	<hr/> <hr/>	<hr/> <hr/>

	Reportable segment total		Unallocated		Consolidated	
	2019	2018	2019	2018	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Other material items						
Depreciation and amortisation	93	143	1,449	94	1,542	237
Finance costs	1	1	23,293	28,276	23,294	28,277
Expenditures for additions to non-current assets*	–	40	2,933	23	2,933	63
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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, and the location of the operations to which they are allocated, in the case of trading rights and goodwill.

	Revenue from external customers		Non-current assets*	
	2019	2018	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong (domicile)#	8,844	34,005	11,515	7,343
Mainland China	–	141	8	9
	<hr/>	<hr/>	<hr/>	<hr/>
	8,844	34,146	11,523	7,352
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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

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

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:

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Customer A <i>(note i)</i>	5,044	18,669
Customer B <i>(note i)</i>	1,222	–

Notes:

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

5. FEE AND COMMISSION INCOME, INTEREST INCOME

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Fee and commission income		
Securities brokerage and financial services segment:		
— Securities and futures brokerage	159	1,270
— Underwriting and placing	21	–
— Others	150	334
	330	1,604
Asset management services segment:		
— Fund and portfolio management and investment advisory	8,474	30,095
	8,804	31,699
Interest income		
— Margin financing and money lending	40	2,447
	40	2,447
Total	8,844	34,146

The Group has applied the practical expedient in paragraph 121 of HKFRS 15 to its customer contracts relating to fund and portfolio management and investment advisory services such that the Group had not disclose information about revenue that the Group will be entitled to when it satisfies the remaining performance obligations under the contracts that had an original expected duration of one year or less and any estimated amounts of variable consideration that are constrained.

6. OTHER GAINS AND LOSSES

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Changes in fair value of held for trading investments	(5,610)	(28,155)
Gains/(Losses) on disposal of subsidiaries	10	(2,919)
Impairment losses on goodwill	(7,000)	–
Impairment losses on trading rights	–	(3,322)
Loss allowances on trade receivables	(4,570)	–
Net foreign exchange gains	33	237
Net gain on disposals of property, plant and equipment	5	–
Others	24	172
	<u>(17,108)</u>	<u>(33,987)</u>

7. OTHER INCOME

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Interest income from banks and others	32	211
Sundry income	586	–
	<u>618</u>	<u>211</u>

8. FINANCE COSTS

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Effective interest on liability component of convertible bonds	–	27,153
Interest on bank and other borrowings	1	2
Interest on loans from a director of the Company and related companies	22,862	1,122
Interest on lease liabilities	431	–
	<u>23,294</u>	<u>28,277</u>

9. LOSS BEFORE INCOME TAX

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Loss before income tax is arrived at after charging:		
Staff costs, including directors' emoluments		
— Fees, salaries, allowances and bonuses	25,593	29,037
— Retirement benefit scheme contributions*	130	487
	<u>25,723</u>	<u>29,524</u>
Other expenses		
— Auditor's remuneration	1,300	1,400
— Bad debt written off	461	–
— Entertainment and gifts	471	992
— Minimum lease payments for leases in respect of land and buildings previously classified as operating leases under HKAS 17	–	9,902
— Other professional fees	2,751	5,059
— System license and subscriptions	1,196	1,162
— Others	13,181	6,812
	<u>19,360</u>	<u>25,327</u>

* The amount included forfeited contributions of HK\$704,000 (2018: HK\$572,000) 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 (CREDIT)/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%.

Hong Kong profits tax is calculated in accordance with the two-tiered profits tax rates regime for both current and previous years.

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Current tax — Hong Kong profits tax		
— Provision for current year	–	1,327
— Over provision in respect of prior years	(201)	(141)
	<u>(201)</u>	<u>1,186</u>
Deferred tax		
— Write-down of deferred tax assets	–	144
	<u>–</u>	<u>144</u>
Total income tax (credit)/expense	<u>(201)</u>	<u>1,330</u>

11. DIVIDENDS

No dividend was proposed or paid during the years ended 31 December 2019 and 2018, 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\$77,334,000 (2018: loss of approximately HK\$81,646,000) and the weighted average number of 3,819,705,413 (2018: 3,575,243,574) 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 since their exercise would result in decrease in loss per share.

13. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Trade receivables	1,182	36,716
Other receivables and prepayments	2,951	3,429
	4,133	40,145

The analysis of trade receivables is as follows:

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
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
Arising from asset management services	5,752	29,415
Arising from money lending services	–	7,241
Less: Loss allowances	(4,570)	–
	1,182	36,716

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 are repayable on demand subsequent to the settlement date and bear interest at Hong Kong Dollar Prime Rate plus a spread of 3% (2018: 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 as at 31 December 2018 represented a term loan which was repayable within one year from 31 December 2018 and bore interest at a fixed rate of 10% per annum and was secured by marketable securities with fair value of HK\$30,000,000 at 31 December 2018.

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.

The following table provides information about the exposure to credit risk for amounts arising from asset management services:

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Not yet past due	1,146	8,903
0 — 30 days past due	3	–
31 — 60 days past due	3	–
61 — 90 days past due	3	4,705
91 — 180 days past due	1,329	7,530
181 — 365 days past due	18	8,151
Over 365 days past due	3,250	126
Less: Loss allowances	(4,570)	–
	1,182	29,415

14. HELD FOR TRADING INVESTMENTS

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Listed equity securities	26	5,263
Unlisted investment funds <i>(note)</i>	–	1,565
	26	6,828

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

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Trade payables arising from the business of dealing in securities and futures contracts		
— HKSCC and HKCC	10	–
— Cash clients	15,431	44,354
— Margin clients	783	1,134
	<u>16,224</u>	<u>45,488</u>
Other payables and accruals	2,515	8,731
	<u>18,739</u>	<u>54,219</u>

The normal settlement terms of trade payables 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 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.

16. LEASES

The Group leases a number of office properties from which it operates. Rental contracts are typically made for a fixed period of 13 months, but may have extension options which is exercisable by the Group to further extend the lease terms for 3 years.

None of the leases contain variable lease payments.

Right-of-use assets

Set out below are the carrying amounts of right-of-use assets and lease liabilities recognised and the movements during the year:

	Land and buildings <i>HK\$'000</i>
At 1 January 2019	–
Additions	14,400
Depreciation	(1,173)
Effect of lease modification	(4,615)
	<u>8,612</u>
At 31 December 2019	<u>8,612</u>

Lease liabilities

	Land and buildings <i>HK\$'000</i>
At 1 January 2019	–
Additions	14,400
Effect of lease modification	(4,639)
Interest expense	431
Lease payments	(1,446)
	<hr/>
At 31 December 2019	8,746
	<hr/> <hr/>
Analysed into:	
Current liabilities	1,896
Non-current liabilities	6,850
	<hr/> <hr/>

As at 31 December 2019, the Group had total future lease payments for leases committed but not yet commenced falling due as follows:

	Minimum lease payments <i>HK\$'000</i>	Interest <i>HK\$'000</i>	Present value <i>HK\$'000</i>
Not later than one year	2,884	(988)	1,896
Later than one year and not later than two years	2,884	(736)	2,148
Later than two year and not later than five years	5,285	(583)	4,702
	<hr/>	<hr/>	<hr/>
At 31 December 2019	11,053	(2,307)	8,746
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The analysis of expense items in relation to leases recognised in profit or loss is as follows:

	2019 <i>HK\$'000</i>
Depreciation expense of right-of-use assets	1,173
Interest on lease liabilities	431
Expense relating to short-term leases and other leases with remaining lease term ending on or before 31 December 2019	5,975

The Group has no expense relating to leases of low-value assets, excluding short-term leases of low-value assets.

FINAL DIVIDEND

The Directors did not recommend the payment of any dividend for the year ended 31 December 2019.

BUSINESS AND FINANCIAL REVIEW

For the year ended 31 December 2019, the fee and commission income of the Group substantially decreased to approximately HK\$8.8 million, representing 72% decrease as compared with approximately HK\$31.7 million for the year ended 31 December 2018. For the year ended 31 December 2019 the interest income of the Group decreased to approximately HK\$0.04 million due to decreased income from money lending business, representing 98% decrease as compared with approximately HK\$2.4 million for the year ended 31 December 2018. Loss for the year ended 31 December 2019 was approximately HK\$77.4 million, as compared with loss of approximately HK\$81.6 million of the year ended 31 December 2018. Such decrease in loss is primarily attributable to decrease in staff costs, decrease in fair value loss of held for trading investments and the absence of impairment losses on trading rights and losses on disposal of subsidiaries for the year ended 31 December 2019.

In 2019, the global economy continued to face a more challenging environment due to the influence from the factors including the continued global trade tensions, the risk of a global economic slowdown, together with changes in regulatory environment in Hong Kong and social unrest in Hong Kong had created a challenging business environment for the Group.

As a combined effect of the unfavourable market situation from the aforesaid factors and the economic uncertainties (such as tightened controls on capital outflow by the Government of The People's Republic of China (the "PRC"), the revenue across all the business segments has been substantially decreased.

The performance of the Group in 2019 had been adversely affected by the significant drop in total asset under management throughout the year and the sluggish investment sentiment in Hong Kong as a result of the tightened regulatory regime, Hong Kong protests and the persistent global economic uncertainties. The abovementioned factors will continue to affect the Group's future performance.

During the year ended 31 December 2019, the total revenue of Sheng Yuan Financial Services Group Limited (a subsidiary of the Company) and its subsidiaries (collectively, the "SYFS Group") decreased by nearly 72% to approximately HK\$8.8 million (2018: HK\$31.7 million).

For securities business, revenue from securities brokerage and financial services during the year ended 31 December 2019 decreased significantly by 90% to approximately HK\$0.4 million (2018: approximately HK\$4.1 million); segment result recorded a loss of approximately HK\$12.7 million (2018: loss of approximately HK\$7.8 million). Such decrease in revenue was mainly because the Group was unable to provide desired securities margin financing services to its customers for the year.

For asset management business, as at 31 December 2019, Sheng Yuan Asset Management Limited (“SYAM”) acted as the fund manager or investment adviser for 3 funds and 2 discretionary accounts. The total assets under management (the “AUM”) of SYAM decreased by nearly 100% to approximately HK\$23.8 million for the year ended 31 December 2019 (2018: approximately HK\$7.9 billion). During the year ended 31 December 2019, SYAM recorded segment revenue of approximately HK\$8.5 million (2018: approximately HK\$30.1 million), representing a decrease of approximately 72%; it recorded segment loss of approximately HK\$16.3 million (2018: profit of approximately HK\$2.8 million). The significant decrease in profit was mainly due to the significant decrease in management fee and investment advisory fee as a result of the liquidation of some funds upon the completion of their investment projects and significant drop in total asset under management. Due to tremendous uncertainties, some potential customers are awaiting better opportunities and are deferring their investment decision. SYAM knows well of the dynamics in the capital market and owns experienced investment team and unique analysis and advice.

For proprietary trading business, the SYFS Group mainly invests in the listed shares and private funds in Hong Kong market. During the years ended 31 December 2019 and 2018, as the Group has no additional investment in proprietary trading business, the segment loss from proprietary trading business was approximately HK\$7.1 million (2018: HK\$31.2 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 2019. The segment loss for trading business for the year ended 31 December 2019 was approximately HK\$2.2 million (2018: segment loss of HK\$0.3 million).

PROSPECTS AND FUTURE PLANS

Since January 2020, the PRC has encountered an outbreak of novel coronavirus (“COVID-19”). As a result, certain measures were undertaken by the PRC government and various provincial or municipal governments including but not limited to implementation of travel restrictions. The Group will keep continuous attention on the change of situation and make timely responses and adjustments in the future.

Looking forward to 2020, the market conditions for Hong Kong remain uncertain and continue to face new challenges. Hong Kong will be exposed to increasing risks and difficulties, mainly from the relentless social unrest campaigns resulted in unfavourable investment sentiment in the local property market and other sectors, weighing on the Hong Kong and mainland China economies, and further deterring investors, changing monetary policies among major economies and economic downturn in emerging markets. Due to the abovementioned factors, the Directors expect that there are still existences of material uncertainties and adverse effects on the overall business of our Group with the weak economic conditions in Hong Kong.

To cope with the challenging environments, the Group will continue to evaluate development opportunities to strengthen our competitive advantage through deploy more resources for seizing this market potential and broaden its revenue so as to generate value for Shareholders. The Directors are confident to achieve sustainable growth from 2020 and bring greater returns to our Shareholders.

The Group has formulated plan to enhance its financial resources for the development of its existing business operation. The Group will also 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. In addition, the Group will continue to expand its financial consultancy businesses including corporate finance advisory services and mergers and acquisitions transactions.

In addition, the management team is dedicated to continually taking active steps to reduce the Group's operating costs and improve operating efficiency in order to generate greater returns to its shareholders. A shareholder's loan in the principal amount of HK\$99,800,000 is owing by the Group to Yuanyin Holdings Limited. To further ease the Group's financial burden and allow time for the Company to develop its business with the implementation with its new business plan, the parties have agreed to substantially reduce the interest rate on the shareholder's loan of HK\$99,800,000 to 5% effective from 22 January 2020, from 12.5% previously (and from 25% prior to October 2019). The reduction in interest rate can lower the Group's finance costs by approximately HK\$4.9 million per annum.

Further, management has also taken active steps to obtain additional financial resources to provide sufficient liquid capital to resume the Group's underwriting business and to provide additional capital for future expansion of its underwriting and other businesses. Yuanyin International Limited also signed a letter of commitment in favour of the Company pursuant to which a total loan facility of up to HK\$50 million can be made available to the Company at the interest rate of 5% per annum for a term of one year. In addition, Yuanyin International Limited has signed a letter of commitment to provide an additional facility of up to HK\$50 million in order to provide sufficient funding support to satisfy the Company's working capital and other financing requirements during the 12 months from 20 February 2020.

The Group has also recently implemented measures to significantly reduce its operating expenses by (i) moving to smaller office from 26 August 2019 onwards, which resulted in more than 50% drop in monthly rental expenses and management fees; (ii) reducing the number of non-essential staff, which would result in lower staff expenses, as well as corresponding decrease in electricity expense, cleaning expenses, insurance and telephone expenses; and (iii) adopting strict cost control policies from February 2020, under which various administrative expenses have been substantially reduced.

It is expected that with the successful implementation of these business plans, the Company may be able to generate positive cash flows from operations and significantly improving its operating performance.

ACQUISITION AND DISPOSAL

There was no material acquisition or disposal during the year ended 31 December 2019.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2019, cash and bank balances in general accounts maintained by the Group were approximately HK\$29.8 million, representing a decrease of approximately 37% from approximately HK\$47.3 million as at 31 December 2018. Balances in trust and segregated accounts were approximately HK\$17.4 million (2018: HK\$45.4 million). Trade and other receivables and prepayments were approximately HK\$4.1 million as at 31 December 2019 (2018: HK\$40.1 million), which mainly represented decreased receivables from money lending business and securities brokerage as due to the money lending business has been suspended. Trade and other payables and accruals were approximately HK\$18.7 million as at 31 December 2019 (2018: HK\$54.2 million), which was due to decrease in trade payable from securities brokerage.

The Group's current assets and current liabilities as at 31 December 2019 were approximately HK\$52.1 million (2018: HK\$140.6 million) and approximately HK\$121.2 million (2018: HK\$135.1 million) respectively. The borrowings as at 31 December 2019 were approximately HK\$100.1 million (2018: HK\$80.4 million). The gearing ratio of the Group, measured as total debts to total assets, was approximately 153% as at 31 December 2019 (2018: 54%). As at 31 December 2019, the Group recorded net liabilities of approximately HK\$62.8 million (2018: net asset of approximately HK\$14.6 million). During the year ended 31 December 2019, 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

The Directors monitor the Group's capital structure by reviewing cash flow requirements, taking into account of its future financial obligations and commitments. The capital structure of the Group comprises of issued share capital and reserves attributable to Shareholders. The Directors review the Group's capital structure regularly. There is no changes in capital structure during the year.

SIGNIFICANT SECURITIES INVESTMENTS

During the year ended 31 December 2019, the Group had no further investments in held-for-trading securities in Hong Kong and the fair value of the investments was HK\$26,000. 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 Board 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, 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.

CONTINGENT LIABILITIES

As at 31 December 2019, 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 of 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 2019, the Group did not have any pledged assets.

HUMAN RESOURCES

As at 31 December 2019, the Group employed 28 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.

The Group regards our staff as the most important asset and resource and provides regular training courses and a variety of development programs, and has developed relevant training policies and procedures to enhance the effectiveness of such training programs.

During the Reporting Period, the Group has organised both internal and external training courses for employees. Such training courses covered topics including but not limited to industrial updates, compliance matters, occupational health and safety, etc.

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

During the year ended 31 December 2019, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

EVENTS AFTER REPORTING PERIOD

On 14 February 2020, Sheng Yuan Asset Management Limited, a wholly-owned subsidiary of the Company, has entered into certain investment advisory agreements with Yuanyin International Limited and Yuanyin Asset Management Limited.

As at 14 February 2020, Yuanyin Holdings Limited held 26.47% of the issued share capital of the Company and is a substantial shareholder. Each of Yuanyin International Limited and Yuanyin Asset Management Limited is a wholly-owned subsidiary of Yuanyin Holdings Limited, and is therefore each a connected person of the Company. Accordingly, the transactions contemplated under each of the investment advisory agreements constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Further detailed terms in relation to the new investment advisory agreements have been set out in the Company's announcement dated 14 February 2020.

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 2019 have been reviewed by the Audit Committee. The Audit Committee comprises three members namely Mr. Fung Tze Wa (Chairman), Ms. Fang Fang and Mr. Huang Shuanggang. Mr. Fung Tze Wa and Ms. Fang Fang are independent non-executive Directors, and Mr. Huang Shuanggang is a non-executive Director.

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, Ms. Fang Fang (Chairman), Mr. Fung Tze Wa and Mr. An Dong.

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 the Chairman of the Board and two independent non-executive Directors namely, Mr. Liu Yang (Chairman), Mr. Fung Tze Wa and Ms. Fang Fang.

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 2019 except the following deviations:

The Code provision A.2.1 stipulates that the roles of the chairman and the chief executive Officer should be separated and should not be performed by the same individual. The Company did not have a chairman during the year ended 31 December 2019. Mr. Liu Yang was appointed as an executive director, CEO and the Chairman with effect from 31 January 2020. 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 safeguards in place, and the current arrangement would not impair the balance of power of the Company.

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 2019.

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 2019 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 28 May 2020 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, 25 May 2020 to Thursday, 28 May 2020, 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 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong not later than 4:30 p.m. on Friday, 22 May 2020.

DETAILS OF THE INDEPENDENT AUDITOR’S REPORT

The following is the extract of the independent auditor’s report of the Company for the year ended 31 December 2019:

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 2019, 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 during 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 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.

Accordingly, our audit opinion on the Group’s consolidated financial statements for the year ended 31 December 2018 was qualified. 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 2019. Our audit opinion on the Group’s consolidated financial statements for the year ended 31 December 2019 is also qualified because of the possible effect of this matter on the comparability of the related 2019 figures and the 2018 figures in the consolidated financial statements for the year ended 31 December 2019.

Material Uncertainty Related to Going Concern

We draw attention to note 3.1 in the consolidated financial statements, which discloses that the Group had incurred loss after tax of approximately HK\$77 million and net operating cash outflows of approximately HK\$33 million for the year ended 31 December 2019, and as at 31 December 2019, the Group had net current liabilities of approximately HK\$69 million and net liabilities of approximately HK\$63 million. 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: Extract of "note 3.1 to the consolidated financial statements" is included in note 3 to this annual results announcement.

MANAGEMENT'S POSITION

The 2019 audit opinion is qualified because of the possible effect on the comparability of the related 2019 figures and the 2018 figures in the consolidated financial statements for year ended 31 December 2019. Given the 2018 comparative figures will no longer present in the next financial statements, the Company expects that the 2019 qualified opinion would be removed in the next financial year.

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 2019 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
Liu Yang
Chairman

Hong Kong, 31 March 2020

As at the date of this announcement, the Board consists of Mr. Liu Yang, Mr. Zhou Quan and Mr. Zhao Yun (all being executive Directors), Mr. Huang Shuanggang (being a non-executive Director), Ms. Fang Fang, Mr. Fung Tze Wa and Mr. An Dong (all being independent non-executive Directors).