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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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2020

The board of directors (the “**Directors**”, collectively referred to as the “**Board**”) of Sheng Yuan Holdings Limited (the “**Company**”) announces the unaudited consolidated results of the Company and its subsidiaries (the “**Group**”) for the six months ended 30 June 2020 together with the comparative figures for the corresponding period in 2019 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2020

	Notes	Six months ended 30 June	
		2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Fee and commission income	5	4,635	7,104
Interest income	5	–	40
Revenue		4,635	7,144
Other gains and losses	6	(7)	(3,604)
Other income	7	3	831
Staff costs	8	(6,699)	(14,671)
Depreciation		(1,544)	(69)
Finance costs	8	(3,914)	(13,113)
Impairment losses on trade receivables		–	(3,711)
Other expenses	8	(3,756)	(10,722)
Loss before income tax	8	(11,282)	(37,915)
Income tax expense	9	(59)	–
Loss for the period		(11,341)	(37,915)

		Six months ended 30 June	
		2020	2019
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited)	(Unaudited)
Other comprehensive income			
<i>Item that may be reclassified subsequently to profit or loss</i>			
— Exchange differences on translating foreign operations		(80)	14
Exchange differences arising during the period		<u>(80)</u>	<u>14</u>
Other comprehensive income for the period		<u>(80)</u>	<u>14</u>
Total comprehensive income for the period		<u>(11,421)</u>	<u>(37,901)</u>
Loss for the period attributable to:			
— Owners of the Company		(11,341)	(37,893)
— Non-controlling interests		—	(22)
		<u>(11,341)</u>	<u>(37,915)</u>
Total comprehensive income for the period attributable to:			
— Owners of the Company		(11,421)	(37,879)
— Non-controlling interests		—	(22)
		<u>(11,421)</u>	<u>(37,901)</u>
		<i>HK cents</i>	<i>HK cents</i>
Loss per share			
— Basic	<i>11</i>	<u>(0.29)</u>	<u>(0.99)</u>
— Diluted		<u>(0.29)</u>	<u>(0.99)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

	<i>Notes</i>	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		2,518	2,911
Right-of-use assets	12	7,461	8,612
Trading rights		–	–
Goodwill		–	–
Other assets		1,705	1,705
		11,684	13,228
Current assets			
Trade and other receivables and prepayments	13	3,089	4,133
Held for trading investments	14	21	26
Current tax assets		678	678
Trust bank balances held on behalf of clients		14,876	17,394
Cash and cash equivalents		27,849	29,840
		46,513	52,071
Current liabilities			
Trade and other payables and accruals	15	16,090	18,739
Borrowings		102,473	100,142
Lease liabilities	12	2,018	1,896
Contract liabilities		6,005	450
		126,586	121,227
Net current liabilities		(80,073)	(69,156)
Non-current liabilities			
Lease liabilities	12	5,810	6,850
Net liabilities		(74,199)	(62,778)
EQUITY			
Share capital		190,985	190,985
Reserves		(265,184)	(253,763)
Capital deficiency attributable to owners of the Company		(74,199)	(62,778)
Non-controlling interests		–	–
Capital deficiency		(74,199)	(62,778)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

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 4/F North, Cedar House, 41 Cedar Avenue, Hamilton HM 12, 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 condensed consolidated financial statements for the six months ended 30 June 2020 were approved for issue by the board of directors on 28 August 2020.

These condensed consolidated financial statements contains selected explanatory notes primarily an explanation of the events and changes that are significant to an understanding of the changes in financial position and performance of the Group since the end of the last annual reporting period and do not include all information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2019.

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

In the current period, the Group has applied new standards, amendments and interpretations (the “**new HKFRSs**”) which are effective for the Group’s financial statements for the annual period beginning on 1 January 2020. 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**”). The adoption of new or amended HKFRSs has no material impact on the Group’s financial statements. The Group has not applied any new standard, amendment or interpretation that is not yet effective for the current accounting period.

Amendments to HKFRS 3

Definition of a Business

Amendments to HKAS 1 and HKAS 8

Definition of Material

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.

3. BASIS OF PREPARATION

The condensed consolidated financial statements for the six months ended 30 June 2020 have been prepared in compliance with HKAS 34 “Interim Financial Reporting” issued by the HKICPA and with the applicable requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange. The accounting policies and methods of computation that have been used in the preparation of these condensed consolidated financial statements are consistent with those applied in the preparation of the Group’s annual financial statements for the year ended 31 December 2019, except for the adoption of new HKFRSs.

In preparing the condensed consolidated financial statements, the directors have assessed the Group’s ability to continue as a going concern in view of the loss of approximately HK\$11 million for the six months ended 30 June 2020 (six months ended 30 June 2019: approximately HK\$38 million), and as of that date, the Group had net current liabilities and net liabilities of approximately HK\$80 million (31 December 2019: HK\$69 million) and HK\$74 million (31 December 2019: HK\$63 million), respectively. In addition, as at 30 June 2020, the Group’s liabilities included borrowings of approximately HK\$102 million (31 December 2019: HK\$100 million), from a wholly-owned subsidiary of Yuanyin Holdings Limited, a Company’s substantial shareholder, which will be due in January 2021. These conditions indicate the existence of a material uncertainty which may cast significant 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 30 June 2020, the Company had entered into supplementary agreement with that wholly-owned subsidiary of Yuanyin Holdings Limited to extend the repayment date of the existing borrowing with principal amount of approximately HK\$100 million as at 30 June 2020 to January 2022;
- 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.

However, should the plans and measures not be able to implement successfully, the Group may be unable to continue in business as a going concern, adjustments would have to be made in the condensed consolidated 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 as current assets. The effect of these adjustments has not yet been reflected in the condensed consolidated 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.

During the six months ended 30 June 2020, there were no changes from prior periods in the measurement methods used to determine operating segments, reported segment profit or loss and reported segment assets and liabilities. No operating segments identified have been aggregated in arriving at the reportable segments of the Group. Each of these operating segments is managed separately as each of the service lines requires different resources as well as marketing approaches.

	Securities brokerage and financial services <i>HK\$'000</i>	Asset management services <i>HK\$'000</i>	Proprietary trading <i>HK\$'000</i>	Trading business <i>HK\$'000</i>	Total <i>HK\$'000</i>
Six months ended 30 June 2020					
(Unaudited)					
Reportable segment revenue					
External customers					
— Fee and commission income	1,378	3,257	–	–	4,635
— Interest income	–	–	–	–	–
	<u>1,378</u>	<u>3,257</u>	<u>–</u>	<u>–</u>	<u>4,635</u>
Fee and commission income from external customers					
— Timing of revenue recognition					
Point in time	1,378	–	–	–	1,378
Over time	–	3,257	–	–	3,257
	<u>1,378</u>	<u>3,257</u>	<u>–</u>	<u>–</u>	<u>4,635</u>
— Geographical region					
Hong Kong	1,378	3,257	–	–	4,635
	<u>1,378</u>	<u>3,257</u>	<u>–</u>	<u>–</u>	<u>4,635</u>
Reportable segment result	<u>(2,166)</u>	<u>(2,992)</u>	<u>(426)</u>	<u>81</u>	<u>(5,503)</u>
30 June 2020 (Unaudited)					
Reportable segment assets	<u>16,731</u>	<u>1,700</u>	<u>149</u>	<u>52</u>	<u>18,632</u>
Reportable segment liabilities	<u>15,588</u>	<u>5,716</u>	<u>41</u>	<u>–</u>	<u>21,345</u>

	Securities brokerage and financial services <i>HK\$'000</i>	Asset management services <i>HK\$'000</i>	Proprietary trading <i>HK\$'000</i>	Trading business <i>HK\$'000</i>	Total <i>HK\$'000</i>
Six months ended 30 June 2019					
(Unaudited)					
Reportable segment revenue					
External customers					
— Fee and commission income	207	6,897	–	–	7,104
— Interest income	40	–	–	–	40
	<u>247</u>	<u>6,897</u>	<u>–</u>	<u>–</u>	<u>7,144</u>
Fee and commission income from external customers					
— Timing of revenue recognition					
Point in time	207	–	–	–	207
Over time	–	6,897	–	–	6,897
	<u>207</u>	<u>6,897</u>	<u>–</u>	<u>–</u>	<u>7,104</u>
— Geographical region					
Hong Kong	207	6,897	–	–	7,104
	<u>207</u>	<u>6,897</u>	<u>–</u>	<u>–</u>	<u>7,104</u>
Reportable segment result	<u>(6,449)</u>	<u>(4,818)</u>	<u>(4,663)</u>	<u>(534)</u>	<u>(16,464)</u>
30 June 2019 (Unaudited)					
Reportable segment assets	<u>39,383</u>	<u>9,800</u>	<u>2,469</u>	<u>53</u>	<u>51,705</u>
Reportable segment liabilities	<u>38,500</u>	<u>188</u>	<u>71</u>	<u>26</u>	<u>38,785</u>

The Group's reportable segment result is reconciled to the Group's loss before income tax as follows:

	Six months ended 30 June	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Reportable segment result	(5,503)	(16,464)
Other income	3	21
Finance costs	(3,914)	(13,113)
Corporate expenses**	(1,868)	(8,359)
Group's loss before income tax	<u>(11,282)</u>	<u>(37,915)</u>

** mainly staff costs, including directors' emoluments, short-term lease expenses in respect of office properties and other professional fees.

5. FEE AND COMMISSION INCOME, INTEREST INCOME

	Six months ended 30 June	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Fee and commission income		
Securities brokerage and financial services segment:		
— Securities and futures brokerage	1,068	114
— Others	310	93
	<u>1,378</u>	<u>207</u>
Asset management services segment:		
— Fund and portfolio management and investment advisory	3,257	6,897
	<u>3,257</u>	<u>6,897</u>
	<u>4,635</u>	<u>7,104</u>
Interest income		
— Margin financing and money lending	—	40
	<u>—</u>	<u>40</u>
Total	<u><u>4,635</u></u>	<u><u>7,144</u></u>

6. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Changes in fair value of held for trading investments	(5)	(3,664)
Net foreign exchange (losses)/gains	(2)	60
	<u>(7)</u>	<u>(3,604)</u>
	<u><u>(7)</u></u>	<u><u>(3,604)</u></u>

7. OTHER INCOME

	Six months ended 30 June	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Interest income from banks and others	3	21
Sundry income	–	810
	<u>3</u>	<u>831</u>

8. LOSS BEFORE INCOME TAX

	Six months ended 30 June	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Loss before income tax is arrived at after charging/(crediting):		
Finance costs		
— Interest on lease liabilities	524	–
— Interest on loans from a related company	3,390	13,113
	<u>3,914</u>	<u>13,113</u>
Staff costs, including directors' emoluments		
— Fees, salaries, allowances and bonuses	6,965	14,220
— Retirement benefit scheme contributions (<i>Note</i>)	(266)	451
	<u>6,699</u>	<u>14,671</u>
Other expenses		
— Auditor's remuneration	270	270
— Entertainment and gifts	9	334
— Other professional fees	1,266	820
— System license and subscriptions	342	580
— Listing expense	195	253
— Office expense	227	668
— Travelling expense	50	432
— Insurance expense	312	262
— Reinstatement cost	–	1,205
— Expense relating to short-term leases	137	4,562
— Others	948	1,336
	<u>3,756</u>	<u>10,722</u>

Note: For the six months ended 30 June 2020, the amount included forfeited contributions of HK\$336,000 (six months ended 30 June 2019: Nil) in respect of employees who left employment prior to such contributions vesting fully in accordance with the rules of the MPF Scheme.

9. INCOME TAX EXPENSE

For the six month ended 30 June 2020, Hong Kong profits tax was calculated in accordance with the two-tiered profits tax rates regime. 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 are taxed at a flat rate of 16.5%.

For the six months ended 30 June 2019, no Hong Kong profits tax has been provided in the condensed consolidated financial statements as the Group did not generate assessable profits in Hong Kong for the period.

	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current tax – Hong Kong profits tax		
— Provision for current period	–	–
— Under provision in respect of prior periods	59	–
	<hr/>	<hr/>
Total income tax expense	<u>59</u>	<u>–</u>

10. DIVIDENDS

No dividend was proposed or paid during the six months ended 30 June 2020 and 2019, nor has any dividend been proposed since the end of the reporting periods.

11. LOSS PER SHARE

The calculation of basic loss per share is based on the loss attributable to owners of the Company of approximately HK\$11,341,000 (six months ended 30 June 2019: loss of approximately HK\$37,893,000) and the weighted average number of 3,819,705,413 (six months ended 30 June 2019: 3,819,705,413) ordinary shares in issue during the period. The diluted loss per share is the same as the basic loss per share because the calculation of the diluted loss per share does not assume the exercise of the outstanding share options since their exercise would result in a decrease in loss per share.

12. LEASE

Right-of-use assets

As at 30 June 2020, the carrying amounts of right-of-use assets was approximately HK\$7,461,000 (As at 31 December 2019: approximately HK\$8,612,000) in respect of a number of leased office properties which it operates.

During the six months ended 30 June 2020, the Group did not enter into any additional lease agreement and as of that date, none of the leases contain variable lease payments.

Lease liabilities

As at 30 June 2020, the carrying amount of lease liabilities was approximately HK\$7,828,000 (As at 31 December 2019: approximately HK\$8,746,000).

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

	Six months ended 30 June 2020 HK\$'000 (Unaudited)
Depreciation expense of right-of-use assets	1,151
Interest on lease liabilities (<i>note 8</i>)	524
Expense relating to short-term leases	137
	<u>1,812</u>

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

The total cash outflow for lease in the six months ended 30 June 2020 was HK\$1,442,000.

13. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
Trade receivables	5,850	5,752
Less: Loss allowances	(4,570)	(4,570)
	<u>1,280</u>	<u>1,182</u>
Other receivables and prepayments	1,809	2,951
	<u>3,089</u>	<u>4,133</u>

The analysis of trade receivables is as follows:

	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
Arising from asset management services	5,850	5,752
Less: Loss allowances	(4,570)	(4,570)
	<u>1,280</u>	<u>1,182</u>

The Group does not provide any credit term to clients for its asset management services.

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

	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
Not yet past due	38	1,146
0–30 days past due	–	3
31–60 days past due	–	3
61–90 days past due	21	3
91–180 days past due	71	1,329
181–365 days past due	2,452	18
Over 365 days past due	3,268	3,250
	<u>5,850</u>	<u>5,752</u>

14. HELD FOR TRADING INVESTMENTS

	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
Listed equity securities	<u>21</u>	<u>26</u>

15. TRADE AND OTHER PAYABLES AND ACCRUALS

	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
Trade payables arising from the business of dealing in securities and futures contracts		
— HKSCC	–	10
— Cash clients	14,271	15,431
— Margin clients	604	783
	<u>14,875</u>	<u>16,224</u>
Other payables and accruals	1,215	2,515
	<u>16,090</u>	<u>18,739</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. CORONAVIRUS DISEASE 2019 OUTBREAK

Due to the outbreak of the Coronavirus Disease 2019 (“**COVID-19**”) epidemic in January 2020, a series of precautionary and control measures have been and continued to be implemented. It has impacted the global business environment. Up to the date of this announcement, COVID-19 has not resulted in material impact to the Group. Pending the development and spread of COVID-19 subsequent to the date of this announcement, further changes in economic conditions may have impact on the financial results of the Group, the extent of which could not be estimated as at the date of this announcement. The Group will continue to monitor the development of COVID-19 and react actively to its impact on the financial position and operating results of the Group.

INTERIM DIVIDEND

The directors of the Company do not recommend the payment of interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business and Financial Review

Financial Summary

The COVID-19 has affected the Group's revenue to a certain extent. For the six months ended 30 June 2020, due to various projects being postponed under COVID-19, the Group recorded fee and commission income of approximately HK\$4.6 million, representing 35% decrease as compared with approximately HK\$7.1 million for the six months ended 30 June 2019. Total revenue of the Group decreased to approximately HK\$4.6 million for the six months ended 30 June 2020, representing 35% decrease as compared with approximately HK\$7.1 million for the same period in 2019.

Loss for the six months ended 30 June 2020 was approximately HK\$11.4 million, as compared with loss of approximately HK\$37.9 million for the same period in 2019. Such decrease in loss is primarily attributable to the decreases in staff costs, the decreases in finance costs, the absence of impairment losses on trading rights and the decreases in other expenses for the first half of 2020. Both basic and diluted loss per share for the first half of 2020 is approximately 0.30 cents, compared with 0.99 cents for the same period of 2019.

Operation of Business Segments — Securities Brokerage and Financial Services

The Group provides securities brokerage and financial services via two of its subsidiaries, Sheng Yuan Securities Limited (“SYS”) and Sheng Yuan Capital (Hong Kong) Limited (“SYC”).

SYS is licensed to conduct Type 1 (dealing in securities), Type 2 (dealing in futures contracts), and Type 4 (advising on securities) regulated activities under the Securities and Futures Ordinance (“SFO”). Through SYS, the Group provides underwriting and placing services in equity and debt capital transactions, securities and futures brokerage services for securities, futures and options contracts, margin financing services, and custodian and handling services for client accounts on securities, futures, and options contracts. The fee and commission are based on certain percentage of the total transaction amounts.

As at 30 June 2020, SYS had a total number of 5 employees. 2 employees are licensed as responsible officers to conduct Type 1, Type 2, and Type 4 regulated activities. 1 employee is licensed as responsible officer to conduct Type 1 regulated activities and as representative to conduct Type 4 regulated activities. 1 employee is licensed as representative to conduct both Type 1 and Type 4 regulated activities. As at 30 June 2020, SYS maintained 637 client accounts, which is largely unchanged compared to the number of client accounts as at 30 June 2019. There was approximately HK\$14.9 million in client trust bank accounts, representing a 60% decrease from HK\$37.5 million as at 30 June 2019. Such decrease was mainly due to clients withdrawing funds out of their accounts as a result of the departure of a key senior management team.

SYC is licensed to conduct Type 6 (advising on corporate finance) regulated activities under the SFO. SYC provides corporate advisory services, for a fee, to corporate clients for their corporate actions to ensure clients' compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and the Codes on Takeovers and Mergers and Share Buy-backs. Such corporate actions include IPO, placing of shares and other securities, mergers and acquisitions, and business restructuring, etc.

As at 30 June 2020, SYC had only 1 employee, who is licensed as responsible officer to conduct Type 6 (advising on corporate finance) regulated activities under the SFO. Regulation requires SYC to have a minimum number of 2 responsible officers in order to conduct business. Accordingly, another staff member joined the SYC after the reporting date and is now licensed as responsible officer.

Operation of Business Segments — Asset Management

The Group provides asset management services via two of the Group's subsidiaries, Sheng Yuan Asset Management Limited ("**SYAM**") and Sheng Yuan Sino Asset Management Limited ("**SYSAM**"). Both SYAM and SYSAM are licensed to conduct Type 4 and Type 9 (asset management) regulated activities under the SFO. Via these two subsidiaries, the Group provides investment recommendations to clients on securities trading or portfolio management as an investment advisor, as well as investment management services for funds or discretionary accounts. The Group would charge a fixed rate management fee calculated based on value of the net assets within the funds or discretionary accounts, as well as a performance fee calculated based on increase in value of the net assets within the funds or discretionary accounts.

As at 30 June 2020, the asset management segment had 5 employees, all employed by SYAM. Among the 5 employees of SYAM, 2 are licensed as responsible officers, and 3 as representatives. All responsible officers and representatives at SYAM and SYSAM are licensed to conduct Type 4 and Type 9 regulated activities under SFO.

As at 30 June 2020, SYAM acted as the fund manager or investment adviser for 1 fund and 3 discretionary accounts (30 June 2019: 8 funds and 5 discretionary accounts). The total assets under management (the "**AUM**") of SYAM increased by nearly 1,809% to approximately HK\$1.67 billion for the first half of 2020 (First half of 2019: approximately HK\$83.7 million).

Operation of Business Segments — Proprietary Trading

For proprietary trading business, Sheng Yuan Financial Services Group Limited ("**SYFS**") mainly invests in the listed shares and private funds in Hong Kong market. During the six months ended 30 June 2020, the Group no longer reports loss on proprietary trading (six months ended 30 June 2019: HK\$4.7 million loss). This is because the Group has no additional investment in proprietary trading business, and the existing investments had been fully impaired in 2019.

Operation of Business Segments — Product Trading

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 product trading business for the six months ended 30 June 2020. Since the suspension of product trading, the Group has maintained only the basic operation of the office with one staff to look out for appropriate business opportunity to resume the product trading business should such opportunity arise.

Prospects and Future Plans

Enterprises in mainland China have contributed tremendously to China's economic growth over the past four decades of economic reform and opening up, nurturing high net worth individuals (“HNWI”) and even ultra-high net worth individuals (“UHNWI”) in a steady stream, and will continue to assume a significant role in the current round of economic transformation into a new economy driven by innovation and entrepreneurship. However, enterprises are still experiencing difficult times in getting sufficient funding in the onshore market. HNWI and UHNWI in mainland China are still facing limitations on global asset allocation. Meanwhile, Hong Kong, with its unique advantages of having mainland China as hinterland as well as of its extensive global network, is well recognized as the world's premier international finance center. Compared to the mainland China market, Hong Kong market offers more certainty of timing, valuation, and reach to quality assets and investors around the world. The city has been the largest offshore funding center in bond financing and equity financing for enterprises from mainland China, as well as the top destination for Chinese HNWI and UHNWI when it comes to global asset allocation.

Looking forward to the second half of 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 COVID-19 and possibly the relentless social unrest campaigns resulting 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. Since January 2020, the PRC and many other parts of the world have encountered an outbreak of COVID-19. As a result, certain measures were undertaken by the governments including but not limited to implementation of business and travel restrictions. The Group will keep continuous attention on the change of situation and make timely responses and adjustments in the future. So far, COVID-19 already resulted in unfavorable investment sentiment, 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 existence of material uncertainties and adverse effects on the overall business of our Group with the weak economic conditions in Hong Kong and mainland China. To cope with the challenging environment, the Group will continue to evaluate development opportunities to strengthen our competitive advantage through deploying more resources for seizing this market potential and broadening its revenue so as to generate value for shareholders. The Directors are confident to achieve sustainable growth in the second half of 2020 and bring greater returns to our shareholders.

In such context, the Group has formulated plans to further expand its existing business operations. Licensed by the Securities and Futures Commission, the Group provides one-stop financial services to enterprises as well as HNWI and UHNWI from mainland China, including investment banking and asset management. Through our unique network, the Group will be focusing on providing investment banking services to regional financial institutions, investment platforms of both provincial and local governments, and regional leading real estate companies, to connect such enterprises with global funds via Hong Kong market, through either bond financing or equity financing. With potential access to HNWI and UHNWI through our partners, the Group will launch various funds in 2020 to address the demand of oversea investment opportunities from mainland China financial institutions, as well as to address needs of the global asset allocation for HNWI and UHNWI from mainland China.

The Group will 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. 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.

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; and (iii) adopting strict cost control policies since 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.

Acquisitions and Disposals

There was no material acquisition or disposals of subsidiaries, consolidated affiliated entities or associated companies during the six months ended 30 June 2020.

Liquidity and Financial Resources

As at 30 June 2020, cash and bank balances in general accounts maintained by the Group were approximately HK\$27.8 million, representing a decrease of approximately 7% from approximately HK\$29.8 million as at 31 December 2019. Such cash and bank balances are mainly held in Hong Kong dollars, United States dollars and Renminbi. Balances in trust and segregated accounts as at 30 June 2020 were approximately HK\$14.9 million (31 December 2019: HK\$17.4 million).

Trade and other receivables and prepayments were approximately HK\$3.1 million as at 30 June 2020 (31 December 2019: HK\$4.1 million). Trade and other payables and accruals were approximately HK\$16.0 million as at 30 June 2020 (31 December 2019: HK\$18.7 million), as a result of the decrease in client trust accounts value.

The Group's current assets and current liabilities as at 30 June 2020 were approximately HK\$46.5 million (31 December 2019: HK\$52.0 million) and approximately HK\$126.6 million (31 December 2019: HK\$121.2 million) respectively. The borrowings as at 30 June 2020 were approximately HK\$102.5 million (31 December 2019: HK\$100.1 million). The majority of the Group's borrowings are denominated in Hong Kong dollars and at fixed interest rates. The gearing ratio of the Group, measured as total debts to total assets, was approximately 176% as at 30 June 2020 (31 December 2019: 153%). The increases was primarily due to the increase in borrowings of the Group and a reduction in the assets of the Group due to the reduction in value of client accounts and trade and other receivables and prepayments as mentioned above. As at 30 June 2020, the Group recorded net liabilities of approximately HK\$74.2 million (31 December 2019: net liabilities of approximately HK\$62.8 million primarily as a result of the continued operating losses recorded by the Group in recent years). During the six months ended 30 June 2020, the Group financed its operations with internally generated cash flow and funds from borrowings.

Foreign Exchange Exposure

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

Capital Structure

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 period.

Funding and Treasury Policies

The Group adopts a conservative approach for cash management and investment on uncommitted funds. We place cash and cash equivalents (which are mostly held in Hong Kong dollars, United States dollars and Renminbi) in short term deposits with authorized institutions in Hong Kong.

Contingent Liabilities

As at 30 June 2020, the Group did not have any material contingent liabilities.

Significant Subsequent Events

Subsequent to 30 June 2020, the Company had entered into supplementary agreement with a wholly-owned subsidiary of Yuanyin Holdings Limited to extend the repayment date of the existing borrowing with principal amount of approximately HK\$100 million as at 30 June 2020 to January 2022.

Pledge of Assets

As at 30 June 2020, the Group did not have any pledged assets.

Human Resources

As at 30 June 2020, the Group employed 26 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 organized 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, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 30 June 2020, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

CORPORATE GOVERNANCE

The Company is committed to maintain high standard of corporate governance standards and procedures to safeguard the interests of all and to enhance accountability and transparency. The Company has complied with all applicable code provision as set out in the Corporate Governance Code and Corporate Governance Report (the "Code") contained in Appendix 14 of the Listing Rules during the six months ended 30 June 2020 except the following deviations:

The Code provision A.2.1 stipulates that the roles of the Chairman and the Chief Executive Officer ("CEO") should be separated and should not be performed by the same individual. Mr. Liu Yang was appointed as an executive Director, CEO of the Group and the Chairman of the Board 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.

The Board will continue to review and monitor its corporate governance practices to assess whether separation of the role of chairman of the Board and CEO of the Group is necessary.

AUDIT COMMITTEE

The audit committee of the Company currently comprises Ms. Huang Qin (Chairman), Mr. Zhang Jinfan, and Mr. Huang Shuanggang, all of whom are non-executive Directors with Ms. Huang possessing with appropriate professional qualifications and experience in financial matters. The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed the internal control and financial reporting matters. The interim results and the unaudited financial statements for the six months ended 30 June 2020 have been reviewed by the audit committee.

REMUNERATION COMMITTEE

The remuneration committee of the Company is responsible for making recommendations to the Board on the Company's policy and packages of employment for the Directors and senior management. It comprises three independent non-executive Directors, being Mr. Zhang Jinfan (Chairman), Ms. Wen Han Qiuzi, and Ms. Huang Qin.

NOMINATION COMMITTEE

The nomination committee of the Company are independent non-executive Directors, amongst other things, to review the structure, size and composition of the Board and make recommendations for changes as necessary, to identify individuals suitably qualified to become board members and select or make recommendations to the Board on the selection of, individuals nominated for directorships, to assess the independence of independent non-executive Directors, and to make recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for Directors in particular the Chairman and the Chief Executive Officer. It comprises one executive director and two independent non-executive Directors, being Mr. Liu Yang (Chairman), Mr. Zhang Jinfan and Ms. Wen Han Qiuzi.

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**”) as set out in Appendix 10 to the Listing Rules as a code of conduct of the Company for directors' securities transactions. Having made specific enquiry of all Directors, the Directors had complied with the required standard set out in the Model Code and the Company's code of conduct regarding directors' securities transactions throughout the six months ended 30 June 2020.

No incident of non-compliance of the Model Code by relevant employees has been noted by the Company during the six months ended 30 June 2020.

EXTRACT OF REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENT

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Emphasis of Matter — Material Uncertainty Related to Going Concern

Without further qualifying our conclusion, we draw attention to note 3 to the interim condensed consolidated financial statements, which indicates that the Group had a loss of approximately HK\$11,341,000 for the six months ended 30 June 2020, and as of that date, the Group had net current liabilities of approximately HK\$80,073,000 and net liabilities of approximately HK\$74,199,000. These conditions, along with other matters as set forth in note 3, indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the website of the Company (www.shengyuan.hk) and the Stock Exchange (www.hkexnews.hk). The interim report for the six months ended 30 June 2020 of the Company containing all information required by the Listing Rules will be dispatched to the shareholders of the Company and available on the above websites in due course.

BOARD OF DIRECTORS

As at the date of this announcement, the Board consists of Mr. Liu Yang, Mr. Zhou Quan and Mr. Zhao Yun (all being executive Directors), Mr. Huang Shuanggang (being a non-executive Director), Mr. Zhang Jinfan, Ms. Wen Han Qiuzi and Ms. Huang Qin (all being independent non-executive Directors).

By order of the Board
Sheng Yuan Holdings Limited
Liu Yang
Chairman of the Board

Hong Kong, 28 August 2020