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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 2021

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 2021 together with the comparative figures for the corresponding period in 2020 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2021

		Six months ended 30 June	
		2021	2020
	Notes	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Fee and commission income	5	17,955	4,635
Revenue		17,955	4,635
Other gains and losses	6	(83)	(7)
Other income	7	22	3
Staff costs	8	(4,902)	(6,699)
Depreciation		(1,501)	(1,544)
Finance costs	8	(3,276)	(3,914)
Impairment losses on trade receivables		(1,167)	–
Other expenses		(3,124)	(3,756)
Profit/(Loss) before income tax	8	3,924	(11,282)
Income tax expense	9	(2,746)	(59)
Profit/(Loss) for the period		1,178	(11,341)

		Six months ended 30 June	
		2021	2020
<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			
Exchange differences arising during the period		<u>(15)</u>	<u>(80)</u>
Other comprehensive income for the period		<u>(15)</u>	<u>(80)</u>
Total comprehensive income for the period		<u>1,163</u>	<u>(11,421)</u>
		<i>HK cents</i>	<i>HK cents</i>
Earnings/(Loss) per share	11		
— Basic		<u>0.03</u>	<u>(0.29)</u>
— Diluted		<u>0.03</u>	<u>(0.29)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2021

		30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
	Notes		
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		1,627	1,977
Right-of-use assets	12	5,159	6,310
Trading rights		–	–
Goodwill		–	–
Other assets		1,705	1,730
Long-term deposit		806	806
		<u>9,297</u>	<u>10,823</u>
Current assets			
Trade and other receivables and prepayments	13	37,009	21,776
Held for trading investments	14	585	20
Trust bank balances held on behalf of clients		172,434	12,644
Cash and cash equivalents		74,812	34,649
		<u>284,840</u>	<u>69,089</u>
Current liabilities			
Trade and other payables and accruals	15	181,652	15,875
Lease liabilities		2,104	1,966
Contract liabilities		450	736
Current tax liabilities		5,153	2,407
		<u>189,359</u>	<u>20,984</u>
Net current assets		<u>95,481</u>	<u>48,105</u>
Non-current liabilities			
Borrowings		–	104,988
Convertible bonds	16	136,044	–
Lease liabilities		3,525	4,702
		<u>139,569</u>	<u>109,690</u>
Net liabilities		<u>(34,791)</u>	<u>(50,762)</u>
EQUITY			
Share capital		190,985	190,985
Reserves		(225,776)	(241,747)
Capital deficiency		<u>(34,791)</u>	<u>(50,762)</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

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 condensed consolidated financial statements for the six months ended 30 June 2021 were approved for issue by the board of directors on 30 August 2021.

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 2020.

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 2021. 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 the following amended HKFRSs has no material impact on the Group’s financial statements:

Amendments to HKAS 39, HKFRS 7, HKFRS 9 and HKFRS 16	Interest Rate Benchmark Reform — Phase 2
Amendment to HKFRS 16	COVID-19 - Related Rent Concessions

The Group has not applied any new standard, amendment or interpretation that is not yet effective for the current accounting period.

3. BASIS OF PREPARATION

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

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 2021, there were no changes from prior periods in the measurement methods used to determine operating segments, reported segment profit or loss and reported segment assets and liabilities. No operating segments identified have been aggregated in arriving at the reportable segments of the Group. Each of these operating segments is managed separately as each of the service lines requires different resources as well as marketing approaches.

	Securities brokerage and financial services HK\$'000	Asset management services HK\$'000	Proprietary trading HK\$'000	Trading business HK\$'000	Total HK\$'000
Six months ended 30 June 2021 (Unaudited)					
Reportable segment revenue					
External customers					
— Fee and commission income	29	17,926	—	—	17,955
	<u>29</u>	<u>17,926</u>	<u>—</u>	<u>—</u>	<u>17,955</u>
Fee and commission income from external customers					
— Timing of revenue recognition					
Point in time	29	—	—	—	29
Over time	—	17,926	—	—	17,926
	<u>29</u>	<u>17,926</u>	<u>—</u>	<u>—</u>	<u>17,955</u>
— Geographical region					
Hong Kong	29	17,926	—	—	17,955
	<u>29</u>	<u>17,926</u>	<u>—</u>	<u>—</u>	<u>17,955</u>
Reportable segment result	<u>(3,062)</u>	<u>16,158</u>	<u>(92)</u>	<u>(92)</u>	<u>12,912</u>
30 June 2021 (Unaudited)					
Reportable segment assets	<u>190,222</u>	<u>20,330</u>	<u>711</u>	<u>38</u>	<u>211,301</u>
Reportable segment liabilities	<u>173,180</u>	<u>113</u>	<u>41</u>	<u>61</u>	<u>173,395</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 2020					
(Unaudited)					
Reportable segment revenue					
External customers					
— Fee and commission income	1,378	3,257	—	—	4,635
	<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>

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

	Six months ended 30 June	
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Reportable segment result	12,912	(5,503)
Other income	22	3
Finance costs	(3,276)	(3,914)
Corporate expenses**	(5,734)	(1,868)
Group's profit/(loss) before income tax	<u>3,924</u>	<u>(11,282)</u>

** mainly staff costs, including directors' emoluments, and other professional fees.

5. FEE AND COMMISSION INCOME, INTEREST INCOME

	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Fee and commission income		
Securities brokerage and financial services segment:		
— Securities and futures brokerage	29	1,068
— Others	—	310
	<u>29</u>	<u>1,378</u>
Asset management services segment:		
— Fund and portfolio management and investment advisory	17,926	3,257
	<u>17,926</u>	<u>3,257</u>
Total	<u><u>17,955</u></u>	<u><u>4,635</u></u>

6. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Changes in fair value of held for trading investments	(83)	(5)
Net foreign exchange (losses)/gains	—	(2)
	<u>(83)</u>	<u>(7)</u>

7. OTHER INCOME

	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest income from banks and others	1	3
Sundry income	21	—
	<u>22</u>	<u>3</u>

8. PROFIT/(LOSS) BEFORE INCOME TAX

	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Profit/(Loss) before income tax is arrived at after charging/(crediting):		
Finance costs		
— Effective interest on liability component of convertible bonds	952	—
— Interest on lease liabilities	401	524
— Interest on loans from a shareholder	1,923	3,390
	<u>3,276</u>	<u>3,914</u>
Staff costs, including directors' emoluments		
— Fees, salaries, allowances and bonuses	4,761	6,965
— Retirement benefit scheme contributions (<i>Note</i>)	141	(266)
	<u>4,902</u>	<u>6,699</u>
Other expenses		
— Auditor's remuneration	290	270
— Entertainment and gifts	143	9
— Other professional fees	459	1,266
— System license and subscriptions	591	342
— Office expense	247	227
— Insurance expense	169	312
— Expense relating to short-term leases	64	137
— Others	1,161	1,193
	<u>3,124</u>	<u>3,756</u>

Note: For the six months ended 30 June 2020, the amount included forfeited contributions of HK\$336,000 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 months ended 30 June 2021 and 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%.

	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current tax — Hong Kong profits tax		
— Provision for current period	2,746	—
— Under provision in respect of prior periods	—	59
	<hr/>	<hr/>
Total income tax expense	2,746	59
	<hr/>	<hr/>

10. DIVIDENDS

No dividend was proposed or paid during the six months ended 30 June 2021 and 2020, nor has any dividend been proposed since the end of the reporting periods.

11. EARNINGS/(LOSS) PER SHARE

Basic earnings/(loss) per share

The calculation of basic earnings (six months ended 30 June 2020: basic loss) per share is based on the profit attributable to owners of the Company of approximately HK\$1,178,000 (six months ended 30 June 2020: loss attributable to owners of the Company of approximately HK\$11,341,000) and the weighted average number of 3,819,705,413 (six months ended 30 June 2020: 3,819,705,413) ordinary shares in issue during the period.

Diluted earnings/(loss) per share

For the six months ended 30 June 2021

On 21 May 2021, the Company issued convertible bonds with aggregate principal amount of HK\$150,000,000 (note 16). The computation of diluted earnings per share for the period does not assume the conversion of these convertible bonds as it would result in an increase in earnings per share.

For the six months ended 30 June 2020

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 2021, the carrying amounts of right-of-use assets was approximately HK\$5,159,000 (As at 31 December 2020: approximately HK\$6,310,000) in respect of a number of leased office properties where it operates.

During the six months ended 30 June 2021, 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 2021, the carrying amount of lease liabilities was approximately HK\$5,629,000 (As at 31 December 2020: approximately HK\$6,668,000).

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

	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Depreciation expense of right-of-use assets	1,151	1,151
Interest on lease liabilities (<i>note 8</i>)	401	524
Expense relating to short-term leases	64	137

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 2021 was approximately HK\$1,440,000 (six months ended 30 June 2020: approximately HK\$1,442,000).

13. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
Trade receivables	37,519	21,166
Less: Loss allowances	(1,611)	(444)
	35,908	20,722
Other receivables and prepayments	1,101	1,054
	37,009	21,776

The analysis of trade receivables is as follows:

	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
Arising from the business of dealing in securities and futures contracts — Hong Kong Securities Clearing Company Limited (“HKSCC”)	—	253
Arising from asset management services	21,315	4,709
Arising from underwriting and placing services	16,204	16,204
Less: Loss allowances	(1,611)	(444)
	35,908	20,722

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% (2020: 3%) per annum.

Settlement of amounts arising from asset management services and underwriting and placing services is in accordance with the terms set out in respective agreements, usually within one year after the service obligation has been fulfilled.

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

	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
Not yet past due	13,559	18,338
0 — 30 days past due	18,334	441
31 — 60 days past due	1,321	439
61 — 90 days past due	1,316	439
91 — 180 days past due	1,660	60
181 — 365 days past due	133	1,160
Over 365 days past due	1,196	36
	37,519	20,913

14. HELD FOR TRADING INVESTMENTS

	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
Listed equity securities	585	20

15. TRADE AND OTHER PAYABLES AND ACCRUALS

	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
Trade payables arising from the business of dealing in securities and futures contracts		
— Cash clients	172,052	12,439
— Margin clients	382	473
	172,434	12,912
Other payables and accruals	9,218	2,963
	181,652	15,875

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. CONVERTIBLE BONDS

Pursuant to subscription agreement entered into by the Company on 1 April 2021, the Company issued convertible bonds with principal amount of HK\$150,000,000 (“**SYHL Bonds**”), to Yuanyin Holdings Limited, a shareholder of the Company, on 21 May 2021. The SYHL Bonds entitled the holder to convert them into ordinary shares of the Company at an initial conversion price of HK\$0.03 per share at any time before the secondary anniversary of the date of the issuance of SYHL Bonds (“**SYHL Bonds Maturity Date**”) and bear interests at 1% per annum. Unless previously redeemed, converted or cancelled, the Company has to redeem each SYHL Bonds on the SYHL Bonds Maturity Date at 100% of the outstanding principal amount, together with accrued interest, if any.

Based on the terms of the subscription agreement, the SYHL Bonds contain two components, (i) the liability and (ii) the equity conversion components. The fair value of the liability component of SYHL Bonds upon the issuance was calculated at the present value of the estimated coupon interest payments and principal amount. The discount rate used in the calculation is 6%, representing the cost of debt applicable to the Company for a similar bond without conversion option at the issue date.

The movements of the components of SYHL Bonds during the period are set out below:

	Liability component HK\$'000	Equity conversion component HK\$'000
At 1 January 2021 (Audited)	–	–
Issued during the period	135,092	14,808
Effective interest recognised	952	–
	<hr/>	<hr/>
At 30 June 2021 (Unaudited)	<u>136,044</u>	<u>14,808</u>

INTERIM DIVIDEND

The directors of the Company (the “**Directors**”) do not recommend the payment of interim dividend for the six months ended 30 June 2021 (six months ended 30 June 2020: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business and Financial Review

Financial Summary

The COVID-19 has affected the Group’s revenue to a certain extent. However, despite that various projects being postponed under COVID-19, for the six months ended 30 June 2021, the Group recorded fee and commission income of approximately HK\$18.0 million, representing 287% increase as compared with approximately HK\$4.6 million for the six months ended 30 June 2020.

Profit for the six months ended 30 June 2021 was approximately HK\$1.2 million, as compared with loss of approximately HK\$11.3 million for the same period in 2020. Such increase in profit is primarily attributable to increases in revenue source, as well as the decreases in staff costs, partially offset by impairment losses on trading receivables for the first half of 2021. Both basic and diluted profit per share for the first half of 2021 is approximately 0.03 cents, compared with 0.29 cents of loss per share for the same period of 2020.

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 2021, 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 2021, SYS maintained 639 client accounts, which is largely unchanged compared to the number of client accounts as at 30 June 2020. There was approximately HK\$172.4 million in client trust bank accounts, representing a 1,264% increase from HK\$12.6 million as at 31 December 2020. Such increase was mainly due to clients deposited large amount of funds into their accounts for investment purpose.

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 2021, SYC had 2 employees, who are both licensed as responsible officer to conduct Type 6 (advising on corporate finance) regulated activities under the SFO.

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 2021, the asset management segment had 3 employees, all employed by SYAM. Among the 3 employees of SYAM, 2 are licensed as responsible officers, and 1 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 2021, SYAM acted as the fund manager or investment adviser for 1 fund and 3 discretionary accounts, also engaged in Advisory Agreement with 2 clients (30 June 2020: 1 funds and 3 discretionary accounts). The total assets under management (the "**AUM**") of SYAM remained unchanged.

Operation of Business Segments — Proprietary Trading

For proprietary trading business, Sheng Yuan Financial Services Group Limited (“SYFS”) mainly invests in the listed shares, corporate bonds, and private funds in Hong Kong market. During the six months ended 30 June 2021, the Group reported loss of approximately HK\$0.09 million on proprietary trading (six months ended 30 June 2020: HK\$0.43 million loss).

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 2021. Since the suspension of product trading, the Group has maintained only the basic operation of the office 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 2021, the market conditions for Hong Kong remain uncertain and continue to face new challenges. COVID-19 still brings negative impact weighing on the economy of Hong Kong, and further deterring investors. Since the outbreak of COVID-19, 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. Despite of the abovementioned factors, and as proved by our interim results, the Directors are positive to that the Group could conquer such 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 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 in the second half of 2021 and bring greater returns to our Shareholders.

In such context, the Group has formulated plans to further expand its existing business operations. Licensed by 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 platform 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 second half of 2021 to address the demand of oversea investment opportunities from mainland China financial institution, as well as to address needs the global asset allocation from 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.

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 and disposal during the six months ended 30 June 2021.

Liquidity and Financial Resources

As at 30 June 2021, cash and bank balances in general accounts maintained by the Group were approximately HK\$74.8 million, representing an increase of approximately 116% from approximately HK\$34.6 million as at 31 December 2020. Such cash and bank balances are mainly held in Hong Kong dollars, United States dollars (“**USD**”) and Renminbi (“**RMB**”). Balances in trust and segregated accounts as at 30 June 2021 were approximately HK\$172.4 million (31 December 2020: HK\$12.6 million).

Trade and other receivables, prepayments, and trust bank balances held on behalf of clients were approximately HK\$209.4 million as at 30 June 2021 (31 December 2020: HK\$34.4 million), such increase was due to increases in both client trust account and trade receivables. Trade and other payables and accruals were approximately HK\$181.7 million as at 30 June 2021 (31 December 2020: HK\$15.9 million), as a result of the increase in client trust accounts value.

The Group’s current assets and current liabilities as at 30 June 2021 were approximately HK\$284.8 million (31 December 2020: HK\$69.1 million) and approximately HK\$189.4 million (31 December 2020: HK\$21.0 million) respectively. The borrowings as at 30 June 2021 were approximately HK\$136.0 million in the form of convertible bonds (31 December 2020: HK\$105.0 million in the form of loan). 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 46% as at 30 June 2021 (31 December 2020: 131%). The decrease was primarily due to the increase in cash and cash equivalents and trade and other receivables and prepayments. As at 30 June 2021, the Group recorded net liabilities of approximately HK\$34.8 million (31 December 2020: net liabilities of approximately HK\$50.8 million) primarily as a result of positive business operations during 2020 as well as the first half of 2021. During the period ended 30 June 2021, 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, USD and 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, USD and RMB) in short term deposits with authorized institutions in Hong Kong.

Contingent Liabilities

As at 30 June 2021, the Group did not have any material contingent liabilities.

Pledge of Assets

As at 30 June 2021, the Group did not have any pledged assets.

Human Resources

As at 30 June 2021, the Group employed 23 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 2021, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

CORPORATE GOVERNANCE

The Company is committed to maintain high standard of corporate governance standards and procedures to safeguard the interests of all shareholders and to enhance accountability and transparency. The Company has complied with the code on corporate governance practices (the “**Code**”) as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) during the six months ended 30 June 2021 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. Mr. Liu Yang was appointed as an executive Director, CEO and the Chairman of the Board (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.

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 (independent for Ms. Huang and Mr. Zhang) 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 2021 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. The present members are Mr. Zhang Jinfan (Chairman), Ms. Wen Han Qiuzi and Ms. Huang Qin.

NOMINATION COMMITTEE

The nomination committee of the Company is required, amongst other things, to review the structure, size and composition of the Board and make recommendations for changes as necessary, to identify individuals suitably qualified to become board members and select or make recommendations to the Board on the selection of, individuals nominated for directorships, to assess the independence of independent non-executive Directors, and to make recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for Directors in particular the Chairman and the Chief Executive Officer. It comprises one executive Director and two independent non-executive Directors. The present members are 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 of the Listing Rules as a code of conduct of the Company for Directors' securities transactions. Having made specific enquiry of all Directors, the Directors have complied with the required standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions throughout the six months ended 30 June 2021.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the website of the Company (www.shengyuanhk.com) and the Stock Exchange (www.hkexnews.hk). The interim report for the six months ended 30 June 2021 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, 30 August 2021