



**盛源控股有限公司**

**SHENG YUAN HOLDINGS LIMITED**

Stock Code: 851

**2011**

**INTERIM REPORT**

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## Corporate Information

### BOARD OF DIRECTORS

#### Executive Directors

Ms. Lin Min (*Chairman*)

Mr. Yip Kar Hang, Raymond

#### Independent Non-Executive Directors

Mr. Chan Chi On, Derek

Mr. Cheung Kwok Keung

Mr. Lam Kam Tong

### AUDIT COMMITTEE

Mr. Cheung Kwok Keung (*Chairman*)

Mr. Chan Chi On, Derek

Mr. Lam Kam Tong

### REMUNERATION COMMITTEE

Mr. Cheung Kwok Keung (*Chairman*)

Mr. Chan Chi On, Derek

Mr. Lam Kam Tong

### COMPANY SECRETARY

Mr. Or Wing Keung

### STOCK CODE

851

### WEBSITE

[www.shengyuan.hk](http://www.shengyuan.hk)

### PRINCIPAL REGISTRAR

Butterfield Fulcrum Group (Bermuda) Limited

Rosebank Centre

11 Bermudiana Road

Pembroke HM08

Bermuda

### SHARE REGISTRAR

Tricor Tengis Limited

26th Floor, Tesbury Centre

28 Queen's Road East

Hong Kong

### REGISTERED OFFICE

Clarendon House

2 Church Street

Hamilton HM11

Bermuda

### PRINCIPAL OFFICE IN HONG KONG

Suites 4301-5, 43/F

Tower 1, Times Square

1 Matheson Street

Causeway Bay

Hong Kong

### AUDITOR

Deloitte Touche Tohmatsu

*Certified Public Accountants*

35th Floor, One Pacific Place

88 Queensway

Hong Kong

### SOLICITORS

K&L Gates

44th Floor

Edinburgh Tower, The Landmark

15 Queen's Road Central

Hong Kong

### PRINCIPAL BANKERS

The Hong Kong & Shanghai Banking

Corporation Limited

Bank of China

## Report on Review of Interim Financial Information

### TO THE BOARD OF DIRECTORS OF SHENG YUAN HOLDINGS LIMITED

盛源控股有限公司

#### INTRODUCTION

We have reviewed the interim financial information set out on pages 4 to 17, which comprises the condensed consolidated statement of financial position of Sheng Yuan Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) as of 31 October 2011 and the related condensed consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

#### SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

#### CONCLUSION

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

**Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong  
16 December 2011

## Condensed Consolidated Statement of Comprehensive Income

For the six months ended 31 October 2011

		Six months ended	
	Notes	31 October 2011 HK\$'000 (unaudited)	31 October 2010 HK\$'000 (unaudited) (restated)
Revenue	3	28,952	24,727
Other income		269	1
Purchase of inventories for trading businesses		(27,419)	(24,016)
Salaries, commission and related benefits		(18,462)	(1,097)
Depreciation		(931)	(85)
Finance costs		(2,856)	(2,660)
Other administrative expenses		(7,078)	(1,455)
Loss before taxation	4	(27,525)	(4,585)
Taxation	5	—	(14)
Loss for the period attributable to owners of the Company		(27,525)	(4,599)
Other comprehensive income (expense) for the period			
Exchange difference arising on translation of foreign operation		832	(39)
Total comprehensive expense for the period attributable to owners of the Company		(26,693)	(4,638)
Loss per share	7		
Basic and diluted		HK\$(0.02)	HK\$(0.01)

## Condensed Consolidated Statement of Financial Position

At 31 October 2011

	Notes	31 October 2011 HK\$'000 (unaudited)	30 April 2011 HK\$'000 (audited)
Non-current assets			
Property, plant and equipment	8	7,804	4,675
Investment properties	8	11,527	11,306
Trading right		2,822	2,822
Statutory deposits		205	205
		<b>22,358</b>	19,008
Current assets			
Trade and other receivables and prepayments	9	40,217	11,257
Bank balances (trust and segregated accounts)		197,357	338
Bank balances (general accounts) and cash		125,996	144,439
		<b>363,570</b>	156,034
Current liabilities			
Trade and other payables and accruals	10	230,164	5,316
Obligations under finance leases – due within one year		37	37
		<b>230,201</b>	5,353
Net current assets		<b>133,369</b>	150,681
Total asset less current liabilities		<b>155,727</b>	169,689
Capital and reserves			
Share capital	11	117,840	117,840
Share premium and reserves		(16,577)	(614)
		<b>101,263</b>	117,226
Non-current liabilities			
Obligations under finance leases – due after one year		113	128
Convertible notes	12	54,351	52,335
		<b>54,464</b>	52,463
		<b>155,727</b>	169,689

## Condensed Consolidated Statement of Changes in Equity

For the six months ended 31 October 2011

	Attributable to owners of the Company								
	Share capital HK\$'000	Share premium HK\$'000	Shareholder's contribution HK\$'000	Currency translation reserve HK\$'000	Share option reserve HK\$'000	Capital redemption reserve HK\$'000	Convertible notes reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 May 2011 (audited)	117,840	148,259	7,834	691	8,744	477	12,986	(179,605)	117,226
Loss for the period	-	-	-	-	-	-	-	(27,525)	(27,525)
Exchange difference arising on translation of foreign operation	-	-	-	832	-	-	-	-	832
Total comprehensive income (expense) for the period	-	-	-	832	-	-	-	(27,525)	(26,693)
Equity-settled share-based payment	-	-	-	-	10,730	-	-	-	10,730
<b>At 31 October 2011 (unaudited)</b>	<b>117,840</b>	<b>148,259</b>	<b>7,834</b>	<b>1,523</b>	<b>19,474</b>	<b>477</b>	<b>12,986</b>	<b>(207,130)</b>	<b>101,263</b>
At 1 May 2010 (audited)	84,172	42,488	7,834	-	8,744	477	12,986	(166,535)	(9,834)
Loss for the period	-	-	-	-	-	-	-	(4,599)	(4,599)
Exchange difference arising on translation of foreign operation	-	-	-	(39)	-	-	-	-	(39)
Total comprehensive expense for the period	-	-	-	(39)	-	-	-	(4,599)	(4,638)
<b>At 31 October 2010 (unaudited)</b>	<b>84,172</b>	<b>42,488</b>	<b>7,834</b>	<b>(39)</b>	<b>8,744</b>	<b>477</b>	<b>12,986</b>	<b>(171,134)</b>	<b>(14,472)</b>

## Condensed Consolidated Statement of Cash Flows

For the six months ended 31 October 2011

	Six months ended	
	31 October 2011 HK\$'000 (unaudited)	31 October 2010 HK\$'000 (unaudited)
NET CASH USED IN OPERATING ACTIVITIES	(14,918)	(16,886)
CASH USED IN INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(4,135)	(2,106)
Prepared lease payments	–	(8,979)
	(4,135)	(11,085)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(19,053)	(27,971)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	144,439	43,813
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	610	(39)
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD, REPRESENTED BY BANK BALANCES (GENERAL ACCOUNTS) AND CASH	125,996	15,803



## Notes to the Condensed Consolidated Financial Statements

For the six months ended 31 October 2011

### 1. BASIS OF PREPARATION

The Company is an investment holding company. Its subsidiaries are principally engaged in trading of telecommunication equipment and provision of securities brokerage and financial services. In current period, the Group is newly engaged in asset management service.

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

With the increase in revenue and operating expenses for the securities brokerage and financial services segment and the newly set up of the asset management service segment during the period, the directors of the Company changed the presentation format of the analysis of expenses recognised in profit or loss using classification by nature in the statement of condensed consolidated comprehensive income to be more in line with the industry practice. Certain comparative figures in the condensed consolidated statement of comprehensive income had been restated to conform with the presentation format in current period.

### 2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for investment properties that are measured at fair values.

The accounting policies used in the condensed consolidated financial statements for the six months ended 31 October 2011 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 30 April 2011.

In the current interim period, the Group has applied, for the first time, the following new or revised standard, amendments and interpretation ("new or revised HKFRSs") issued by the HKICPA.

HKFRSs (Amendments)	Improvements to HKFRSs 2010
HKAS 24 (Revised)	Related party disclosures
HK(IFRIC) – INT 14 (Amendments)	Prepayments of a minimum funding requirement
HK(IFRIC) – INT 19	Extinguishing financial liabilities with equity instruments

**2. PRINCIPAL ACCOUNTING POLICIES** *(continued)*

The application of these new or revised HKFRSs in the current interim period had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

The Group has not early applied new or revised standards, amendments or interpretation that have been issued but are not yet effective. The following new or revised standard, amendments or interpretation have been issued after the date the consolidated financial statements for the year ended 30 April 2011 were authorised for issuance and are not yet effective:

HKAS 1 (Amendments)	Presentation of items of other comprehensive income <sup>1</sup>
HKAS 19 (Revised 2011)	Employee benefits <sup>2</sup>
HK(IFRIC) – INT 20	Stripping costs in the production phase of a surface mine <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2012.

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2013.

The directors of the Company anticipate that the application of these new or revised standard, amendments or interpretation will have no material impact on the condensed consolidated financial statements.

**3. SEGMENT INFORMATION**

The Group's operating segments, based on information reported to the board of directors for the purposes of resource allocation and performance assessment are as follows:

1. Trading of electrical products and copper concentrate.
2. Trading of telecommunication equipment.
3. Securities brokerage and financial services.
4. Asset management service.

### 3. SEGMENT INFORMATION *(continued)*

During the period, the Group is newly engaged in the asset management service and this is a new operating segment in current period. Information regarding the above operating and reportable segments is reported below.

	Trading of electrical products and copper concentrate Six months ended		Trading of telecommunication equipment Six months ended		Securities brokerage and financial services Six months ended		Asset management service Six months ended		Total Six months ended	
	31 October 2011 HK\$'000 (unaudited)	31 October 2010 HK\$'000 (unaudited)	31 October 2011 HK\$'000 (unaudited)	31 October 2010 HK\$'000 (unaudited)	31 October 2011 HK\$'000 (unaudited)	31 October 2010 HK\$'000 (unaudited)	31 October 2011 HK\$'000 (unaudited)	31 October 2010 HK\$'000 (unaudited)	31 October 2011 HK\$'000 (unaudited)	31 October 2010 HK\$'000 (unaudited)
REVENUE										
External sales	-	20,013	28,237	4,714	648	-	67	-	28,952	24,727
Inter-segment sales	-	-	-	-	-	-	360	-	360	-
Segment revenue	-	20,013	28,237	4,714	648	-	427	-	29,312	24,727
Elimination									(360)	-
Group revenue									28,952	24,727
RESULTS										
Segment results	(216)	220	(1,615)	56	(3,248)	-	(817)	-	(5,896)	276
Other income									269	-
Corporate expenses									(8,312)	(2,201)
Share options expense									(10,730)	-
Finance costs									(2,856)	(2,660)
Loss before taxation									(27,525)	(4,585)

Segment results represent the financial results by each segment without allocation of other income, central administrative costs, share options expense and finance costs. This is the measure reported to the board of directors for the purposes of resources allocation and performance assessment.

The following is an analysis of the Group's assets by operating segment:

	31 October 2011 HK\$'000 (unaudited)	30 April 2011 HK\$'000 (audited)
Segment assets:		
Trading of telecommunication equipment	28,969	6,682
Securities brokerage and financial services	214,016	8,877
Total segment assets	242,985	15,559
Investment properties	11,527	11,306
Bank balances (general accounts) and cash	125,996	144,439
Other assets	5,420	3,738
Consolidated total assets	385,928	175,042

**4. LOSS BEFORE TAXATION**

The Group's loss before taxation has been arrived at after charging (crediting):

	<b>Six months ended</b>	
	<b>31 October 2011 HK\$'000 (unaudited)</b>	31 October 2010 HK\$'000 (unaudited)
Release of prepaid lease payments	–	18
Share options expense	<b>10,730</b>	–
Rental income	<b>(267)</b>	–

**5. TAXATION**

Amount for the six months ended 31 October 2010 represented the People's Republic of China ("PRC") enterprise income tax for a subsidiary operated in the PRC. The tax rate of the PRC subsidiary is 25%.

No provision for Hong Kong Profits Tax has been made in the condensed consolidated financial statements for the six months ended 31 October 2010 and 2011 as the Company and the subsidiaries comprising the Group had no assessable profits arising in Hong Kong. Hong Kong Profits Tax is charged at 16.5% of the estimated assessable profit for the six months ended 31 October 2010 and 2011.

No provision for profits tax is made in other jurisdictions as the subsidiaries in other jurisdictions had no assessable profits for the six months ended 31 October 2010 and 2011.

**6. DIVIDEND**

No dividend was paid, declared or proposed during the periods. The directors do not recommend the payment of an interim dividend.

## 7. LOSS PER SHARE

The calculation of the basic and diluted loss per share attributable to the owners of the Company is based on the following data:

	Six months ended	
	31 October 2011 HK\$'000 (unaudited)	31 October 2010 HK\$'000 (unaudited)
Loss for the purposes of basic and diluted loss per share	(27,525)	(4,599)

	Number of shares Six months ended	
	31 October 2011 (unaudited)	31 October 2010 (unaudited) (restated)
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	1,178,402,911	902,572,458

The computation of diluted loss per share does not assume the conversion of the convertible notes and the exercise of share options since the conversion and exercise would result in a decrease in loss per share.

The weighted average number of ordinary shares adopted in the calculation of the basic and diluted loss per share for the six months ended 31 October 2010 have been adjusted to reflect the impact of the rights issue during the year ended 30 April 2011.

## 8. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

During the period, the Group wrote off certain property, plant and equipment with a carrying amount of HK\$74,000 (2010: nil), resulting in a loss of HK\$74,000 (2010: nil). In addition, the Group acquired property, plant and equipment at an aggregate cost of approximately HK\$4,135,000 (2010: HK\$2,106,000).

The fair value of the Group's investment properties at 30 April 2011 have been arrived at on the basis of a valuation carried out on 30 April 2011 by an independent firm of surveyors, Avista Valuation of Advisory Limited, who have among their staff members of The Hong Kong Institute of Surveyors. The valuation was determined on the basis of discounted cash flow projections based on estimates of future rental income from properties using market rentals and yields as inputs. In the opinion of directors, there was no material change in fair value of Group's investment properties at 31 October 2011 when compare to 30 April 2011.

## 9. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	<b>31 October 2011 HK\$'000 (unaudited)</b>	<b>30 April 2011 HK\$'000 (audited)</b>
Trade receivables from trading business	<b>25,531</b>	6,668
Trade receivables arising from the business of securities brokerage		
– Cash clients	<b>3,498</b>	1,014
– Hong Kong Securities Clearing Company Limited	<b>1,120</b>	62
	<b>4,618</b>	1,076
Loans to securities margin clients	<b>5,146</b>	–
Other receivables and prepayments	<b>4,922</b>	3,513
	<b>40,217</b>	11,257

The following is an aged analysis of trade receivables at the end of the reporting period:

	<b>31 October 2011 HK\$'000 (unaudited)</b>	<b>30 April 2011 HK\$'000 (audited)</b>
0-45 days	<b>23,426</b>	7,645
46 to 180 days	<b>6,500</b>	99
Over 180 days	<b>223</b>	–
	<b>30,149</b>	7,744

The Group allows an average credit period of 45 days to its customers.

Loans to securities margin clients are repayable on demand and bear interest from 8% to 11% (30 April 2011: nil) per annum. In the opinion of the directors, no aged analysis is disclosed as the aged analysis does not give additional value. The loans are secured by pledged marketable securities at fair value of approximately of HK\$11,577,000 (30 April 2011: nil). The fair value of pledged marketable securities of the individual margin clients is higher than the corresponding outstanding loans respectively. The Group is permitted to sell or repledge the marketable securities if the customer defaults the payment as requested by the Group.

## 10. TRADE AND OTHER PAYABLES AND ACCRUALS

	<b>31 October 2011 HK\$'000 (unaudited)</b>	<b>30 April 2011 HK\$'000 (audited)</b>
Trade payables from trading business	<b>22,567</b>	96
Trade payables arising from the business of securities brokerage and financial services – cash clients	<b>201,710</b>	1,363
Amounts due to securities margin clients	<b>1,481</b>	–
Other payables and accruals	<b>4,406</b>	3,857
	<b>230,164</b>	5,316

The following is an aged analysis of trade payables from trading business based on the invoice date at the end of the reporting period:

	<b>31 October 2011 HK\$'000 (unaudited)</b>	<b>30 April 2011 HK\$'000 (audited)</b>
0-45 days	<b>13,766</b>	96
46 to 180 days	<b>8,801</b>	–
	<b>22,567</b>	96

The settlement term of trade payable arising from the business of securities brokerage and financial services is usually two days after the trade date and aged within 30 days. Before the period ended 31 October 2011, Resources Rich Capital Limited ("Resources Rich"), a company incorporated in British Virgin Islands that Mr. Hu Yishi, the spouse of Ms. Lin Min who is the director of the Company and Mr. Hu Yishi is the substantial shareholder of the Company and Resources Rich, deposited approximately HK\$193,000,000 for the purchase of the securities.

Amounts due to securities margin clients are repayable on demand and bear interest from 0.001% to 0.450% (30 April 2011: nil) per annum. In the opinion of the directors, no aged analysis is disclosed as the aged analysis does not give additional value.

## 11. SHARE CAPITAL

	Number of ordinary shares of HK\$0.10 each	Nominal value HK\$'000
<b>Authorised:</b>		
At 1 May 2010, 31 October 2010, 30 April 2011 and 31 October 2011	2,000,000,000	200,000
<b>Issued and fully paid:</b>		
At 1 May 2010 and 31 October 2010	841,716,365	84,172
Shares issued ( <i>Note</i> )	336,686,546	33,668
At 30 April 2011 and 31 October 2011	1,178,402,911	117,840

*Note:* On 24 March 2011, the Company allotted and issued 336,686,546 shares by way of rights issue at a subscription price of HK\$0.42 per rights share on the basis of two rights share for every five shares held.

## 12. CONVERTIBLE NOTES

The movement of the liability component of the convertible notes during the period is set out below:

	HK\$'000
At 1 May 2010	48,693
Interest expenses	2,660
Interest paid	(842)
At 31 October 2010	50,511
Interest expenses	2,650
Interest paid	(826)
At 30 April 2011	52,335
Interest expenses	2,856
Interest paid	(840)
At 31 October 2011	54,351



### 13. SHARE OPTION SCHEME

The Company has a share option scheme for eligible participants of the Group. The Company granted 70,000,000 share options during the period ended 31 October 2011. 40% of the share options granted (equivalent to 28,000,000 share options) vested immediately. The remaining 60% of share options grant (equivalent to 42,000,000 share options) would be vested 1 year after grant date. No share options had been exercised during the period ended 31 October 2011.

The closing price of the Company's shares immediately before 25 August 2011, the date of grant, was HK\$0.57.

The Binomial model has been used to estimate the fair value of the options as at the grant date, 25 August 2011. The fair value of the options for the 40% of the share options and 60% of the share options determined at the date of grant using the Binomial model were HK\$8,249,000 and HK\$13,335,000 respectively.

The following assumptions were used to calculate the fair value of the share option:

Grant date share price	HK\$0.56
Exercise price	HK\$0.56
Expected life	10 years
Expected volatility	77%
Dividend yield	0%
Risk-free interest rate	1.76%

The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. Changes in variables and assumptions may result in changes in the fair value of the options.

The Group recognised the total expense of HK\$10,730,000 for the six months period ended 31 October 2011 in relation to share options granted by the Company.

#### 14. RELATED PARTY TRANSACTIONS

- (a) During the period, the Company recognised interest expenses on convertible notes of HK\$2,856,000 (period ended 31 October 2010: HK\$2,660,000) which are held by Front Riches Investments Limited ("Front Riches"), the ultimate holding company of the Group.
- (b) During the period, the Company recognised management fee income on fund management of approximately HK\$65,000 (period ended 31 October 2010: nil) from Sheng Yuan China Growth Fund (the "Fund") in which Ms. Lin Min, the chairlady and an executive director of the Company, and Mr. Hu Yishi, the spouse of Ms. Lin Min and the substantial shareholder of the Company, together held 100,000 participating shares out of 102,500 participating shares of the Fund.
- (c) As disclosed in note 10, Resources Rich deposited approximately HK\$193,000,000 with the Group during the period ended 31 October 2011 for the purchase of the securities.
- (d) Compensation of key management personnel  
The remuneration of directors and other members of key management during the period was as follows:

	Six months ended	
	31 October 2011 HK\$'000	31 October 2010 HK\$'000
Salaries and other short-term employee benefits	2,288	500
Share options expense	3,500	–
	<b>5,788</b>	500

The remuneration of directors and key executives is determined having regard to the performance of individuals and market trends.

## Interim Dividend

The directors of the Company (the “Directors”) do not recommend the payment of interim dividend for the six months ended 31 October 2011 (six months ended 31 October 2010: Nil).

## Management Discussion and Analysis

### BUSINESS AND FINANCIAL REVIEW

For the six months ended 31 October 2011 (the “Interim Period”), revenue of the Group was approximately HK\$29.0 million, as compared with approximately HK\$24.7 million for the six months ended 31 October 2010 (the “Comparable Period”). The increase in revenue was mainly attributable to revenue from the Group’s trading operation in the PRC having significantly increased and replacing the Group’s trading operations in Hong Kong as the source of trading revenue and the beginning of slight revenue contributions from the Group’s securities brokerage and financial services and asset management service segments in Hong Kong. Loss attributable to owners of the Company has increased to approximately HK\$27.5 million of the Interim Period from approximately HK\$4.6 million of the Comparable Period, which was largely due to increased expenses incurred to support the Group’s diversification into the financial services field, including increased salaries and an one-off expense recorded in relation to the issuance of share options amounting HK\$10.7 million as part of the Group’s incentive scheme for its staff, as well as increased rental expenses for the Group’s offices in Hong Kong and the PRC and professional costs during the Interim Period.

During the Interim Period, revenues from the Group’s trading of telecommunication equipment operations in PRC have significantly improved to approximately HK\$28.2 million (Comparable Period: HK\$4.7 million) as the Group diligently widened its sales representation for increasing types of telecommunication products, and in turn, supply products to telecommunication companies including the Shanghai branch of China Telecom Corporation Limited. On the other hand, market environment for the Group’s trading of electrical products and copper concentrates operations in Hong Kong continued to be unfavourable with fierce competition and very thin margins. Through exercising due caution in transactions to undertake, turnover in this segment gradually dropped since the Comparable Period and the Group has not recorded any turnover in this segment during the Interim Period (Comparable Period: HK\$20 million). The Group has instead focused its resources on the development of its operations in the trading of telecommunication products in the PRC.

During the Interim Period, the Group has taken steady steps towards diversifying into the financial services field. Such diversification began with the completion of the acquisition of Sheng Yuan Securities Limited (“SYSL”) (previously named Kai Yuan Securities Limited), a licensed corporation under the Securities and Futures Ordinance (“SFO”) to engage in Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities, just prior to the beginning of the Interim Period. SYSL provides stock brokerage and securities advisory services via its network of account executives and a user-friendly internet platform to retail and professional investors and also margin financing, thereby generating securities financing income for the Group and providing convenient services for its clients. During the Interim Period, as SYSL gradually began building its client base, the securities brokerage and financial services segment contributed approximately HK\$0.6 million in revenue to the Group (Comparable Period: Nil), and recorded approximately HK\$3.2 million in segmental loss.

## Management Discussion and Analysis *(continued)*

### BUSINESS AND FINANCIAL REVIEW *(continued)*

In June 2011, Sheng Yuan Asset Management Limited ("SYAML"), the Group's asset management and investment advisory arm, was approved as a licensed corporation under the SFO to engage in Type 4 (advising on securities) and Type 9 (Asset Management) regulated activities and began contributing to the Group's revenue in September 2011. On 16 September 2011, the Group launched Sheng Yuan China Growth Fund (the "Fund"), an open-ended fund aimed at providing investors with the opportunity to long term capital growth through active investment in the financial markets, mainly by way of investments in listed equities whose businesses have a substantial focus in the Greater China Region. The Fund is managed by Sheng Yuan Fund Management (Cayman) Limited, to which SYAML acts as the investment adviser. The strategy and potential of the Fund have earned a vote of confidence from Mr. Hu Yishi and Ms. Lin Min, the ultimate beneficial controlling shareholder of the Company and the Chairlady and executive Director respectively, who invested US\$10 million in the Fund (the "Hu Investment") upon its launch. Details of Hu Investment can be found in the announcement and circular of the Company dated 16 September 2011 and 7 October 2011 respectively. As at the end of the Interim Period, despite the recent market volatility, the Fund's net asset value has grown by 6.24% since launch, outperforming the Hang Seng Index which grew by 2.11% during the same period. With the launch of the Fund in September 2011, the asset management service segment began its revenue contribution during the Interim Period with approximately \$0.07 million in external sales revenue. Other than providing advice for the fund, SYAML also provides tailor-made discretionary portfolio management services to individuals, corporate and trust clients to meet their mandate and financial requirements, with one of its focuses being asset management services targeted at the capital investment entrance scheme for foreigners looking to invest and reside in Hong Kong.

### PROSPECTS

Given the opportunities presented in the Group's trading business in the PRC and the difficulties faced in the Hong Kong market, the Group intends to continue having its trading business focused in the PRC. Through continuing to widen its product roster and develop its business network, growth in this trading of telecommunication equipment in the PRC shall be achieved. The Group continues to cautiously monitor its trading business in Hong Kong and may consider discontinuing such business shall operating environment not significantly improve.

With the goal of capitalizing on business opportunities in the financial market in Hong Kong, the Group intends to allocate further efforts into building a comprehensive financial services platform. Leveraging on the business network of the Group, SYSL is gradually expanding its client base, particularly with clients of PRC background, and growth in commission and financing income can be expected. SYSL is also looking into expanding its scope of business to dealing in futures, and application for requisite licenses shall be made in due course.

With the Fund launched in September 2011, interests from potential investors have been seen and SYAML shall seek to recruit further investment into the Fund and will also seek to enlarge its client base for discretionary portfolio management services and will seek to launch additional funds in the future, thereby generating increasing investment management income.

## Management Discussion and Analysis *(continued)*

### PROSPECTS *(continued)*

Following the successful launch of SYSL and SYAML, the Group has set up Sheng Yuan Capital (Hong Kong) Limited ("SYCHK"), which was approved as a licensed corporation under the SFO to engage in Type 6 (advising on corporate finance) regulated activities in December 2011. SYCHK shall solidify yet another facet of the Group's comprehensive line of financial services via the provision of advisory services on corporate transactions. Furthermore, the Group is also targeting to capitalize on investment opportunities presented by its network via private equity funds, denominated in Renminbi and US dollars with focus on long term capital appreciation from special opportunities and growth stage investments in the PRC. The Group shall take the role as general partner of the private equity funds and investments into the funds from limited partners shall be recruited. Certain potential anchor investors approached by the Group have displayed keen interest in the funds and the initial closing of such funds is planned for 2012.

The Group is confident that, with its team of experienced industry veterans with dedicated areas of expertise leading the development of each of the operating divisions of the financial services business, the Group will be able to create a value chain that would be well appreciated by clients and will in turn lead to greater returns for the Group. The Group and its team will also ensure that risk control and compliance are duly observed while proactively building a full-fledged financial services platform.

Although the financial market has seen some recent turbulence, it is the Group's belief that the strength of the Hong Kong financial market shall emerge again in the long term, as the PRC economy is set to grow ever stronger in the long run and Hong Kong will continue to serve its role as China's financial hub. With the Group's provision of a comprehensive value chain in the financial services sector, it will be ready to seize the opportunities in the Hong Kong financial market as and when it rebounds and provide stakeholders with better returns in the future.

### ACQUISITIONS AND DISPOSALS

There was no material acquisition or disposal during the Interim Period.

## Management Discussion and Analysis *(continued)*

### LIQUIDITY AND FINANCIAL RESOURCES

As at the end of the Interim Period, cash and bank balances not belonging to trust and segregated accounts maintained by the Group were approximately HK\$126.0 million, representing an decrease of 13% from approximately HK\$144.4 million as at 30 April 2011, which was largely due to funding applied for the Group's expansion into the financial services field and set up of a new office in Shanghai. Cash and bank balances of trust and segregated accounts have increased significantly to approximately HK\$197.4 million as at 31 October 2011 as compared with approximately HK\$0.4 million as at 30 April 2011, which was largely attributable to the increase in client base of SYSL during the interim period. Largely due to increases in property, plant and equipment corresponding with the Group's business expansion, non-current assets have increased to approximately HK\$22.4 million as at the end of the Interim Period as compared with approximately HK\$19.0 million as at 30 April 2011. During the Interim Period, trade and other receivables and other prepayments have increased from approximately HK\$11.3 million to approximately HK\$40.2 million in tandem with the Group's growth in trading business in the PRC and the growth in securities trading and margin trading business. Trade and other payables and accruals have also increased from approximately HK\$5.3 million to approximately HK\$230.2 million, which was largely due to the increase in cash held for cash account clients of SYSL as well as the Group's growth in trading business in the PRC. The Group's current assets and current liabilities as at the end of the Interim Period were HK\$363.6 million (30 April 2011: HK\$156.0 million) and HK\$230.2 million (30 April 2011: HK\$5.4 million) respectively. The Group has no borrowings as at 30 October 2011. The gearing of the Group, measured as total debts to total assets was approximately 14% as at the end of the Interim Period, as compared with 30% as at 30 April 2011. At the end of the Interim Period, the Group recorded net assets of approximately HK\$101.3 million as compared with approximately HK\$117.2 million as at 30 April 2011, with the decrease largely due to the loss recorded during the Interim Period. During the Interim Period, the Group financed its operation with internally generated cash flow and funds from the prior rights issue and issuance of convertible notes.

### FOREIGN EXCHANGE EXPOSURE

The Group's transactions are mainly denominated in Hong Kong dollars and Renminbi. Foreign exchange exposure of the Group is considered minimal as the exchange rate of Renminbi against Hong Kong dollars were relatively stable during the Interim Period. Therefore, the Group has not engaged in any hedging contracts during the Interim Period. The Group will from time to time review and monitor exchange risks, and consider employing foreign exchange hedging arrangements when appropriate and necessary.

## Management Discussion and Analysis *(continued)*

### CAPITAL STRUCTURE

There has been no change to the capital structure of the Group during the Interim Period.

### CONTINGENT LIABILITIES

As at 31 October 2011, the Group did not have any material contingent liabilities.

### PLEDGE OF ASSETS

As at 31 October 2011, the obligations under finance leases of approximately HK\$150,000 were pledged by the assets with carrying amount of HK\$165,000.

### EMPLOYEES AND REMUNERATION POLICIES

As at 31 October 2011, the Group employed approximately 41 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.

## Directors' Interests in Shares

As at 31 October 2011, the interests of the directors and the chief executives and their associates in the shares, underlying shares and convertible notes of the Company and its associated corporations as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO") or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:

### LONG POSITIONS – ORDINARY SHARES OF HK\$0.10 EACH OF THE COMPANY

Name of Director	Capacity	Number of shares held	Percentage of the issued share capital of the Company
Ms. Lin Min	Interest of spouse (Note)	735,154,800	62.39%

Note: These shares of the Company (the "Shares") are held by Front Riches Investments Limited ("Front Riches"), which is wholly owned by Mr. Hu Yishi, the spouse of Ms. Lin Min.



**Directors' Interests in Shares** *(continued)***LONG POSITIONS – SHARE OPTIONS**

<b>Name of Directors</b>	<b>Capacity</b>	<b>Number of options held</b>	<b>Number of underlying shares</b>
Ms. Lin Min	Beneficial owner	11,980,700	11,980,700
Mr. Yip Kar Hang, Raymond	Beneficial owner	18,872,900	18,872,900
Mr. Chan Chi On Derek	Beneficial owner	600,000	600,000
Mr. Cheung Kwok Keung	Beneficial owner	1,284,600	1,284,600
Mr. Lam Kam Tong	Beneficial owner	600,000	600,000

**LONG POSITIONS – CONVERTIBLE NOTES**

<b>Name of Director</b>	<b>Capacity</b>	<b>Description of equity derivatives</b>	<b>Number of underlying shares</b>
Ms. Lin Min	Interest of spouse (Note a)	5 year 5% convertible notes (Note b)	156,000,000
		2% coupon convertible notes (Note c)	277,610,000

*Notes:*

- (a) These convertible notes are held by Front Riches which is wholly owned by Mr. Hu Yishi, the spouse of Ms. Lin Min.
- (b) The 5 years 5% convertible notes with an outstanding principal amount of HK\$15,600,000 as at 31 October 2011 issued by the company on 17 July 2007 and due on 17 July 2012 are convertible into Shares at a conversion price of HK\$0.10 (after rights issue adjustment) per Share.
- (c) The Company issued 2% coupon convertible notes at a principal amount of HK\$5,152,000 and HK\$39,265,600 on 17 November 2009 and 29 April 2010 and a maturity date of 17 November 2012 and 29 April 2013 respectively. The 2% coupon convertible notes with total outstanding principal amount of HK\$44,417,600 as at 31 October 2011 are convertible into Shares at a conversion price of HK\$0.16 per (after rights issue adjustment) Share.

Save as disclosed above, none of the directors or their associates had any interests or short positions in any Shares, underlying shares and convertible notes of the Company or any of its associated corporations as at 31 October 2011.



## Directors' Interests in Shares *(continued)*

### DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Other than the share option scheme discussed above and the convertible notes of the Company, at no time during the Interim Period was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate and none of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the Interim Period.

### Substantial Shareholders

As at 31 October 2011, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that, other than interest disclosed above in respect of certain directors and chief executives, the following shareholders had notified the Company of their relevant interests in the issued share capital of the Company.

#### LONG POSITIONS – ORDINARY SHARES OF HK\$0.1 EACH OF THE COMPANY

Name of shareholder	Capacity	Number of shares held	Percentage of the issued share capital of the Company
Front Riches	Beneficial owner (Note a)	735,154,800	62.39%

#### LONG POSITIONS – CONVERTIBLE NOTES

Name of shareholder	Capacity	Description of equity derivatives	Number of underlying shares
Front Riches (Note a)	Beneficial owner	5 year 5% convertible notes (Note b)	156,000,000
		2% coupon convertible notes (Note c)	277,610,000

Notes:

- Front Riches is a corporation controlled by Mr. Hu Yishi, whose spouse, Ms. Lin Min, is an executive Director.
- The 5 years 5% convertible notes with an outstanding principal amount of HK\$15,600,000 as at 31 October 2011 issued by the company on 17 July 2007 and due on 17 July 2012 are convertible into Shares at a conversion price of HK\$0.10 (after rights issue adjustment) per Share.
- The Company issued 2% coupon convertible notes at a principal amount of HK\$5,152,000 and HK\$39,265,600 on 17 November 2009 and 29 April 2010 and a maturity date of 17 November 2012 and 29 April 2013 respectively. The 2% coupon convertible notes with total outstanding principal amount of HK\$44,417,600 as at 31 October 2011 are convertible into Shares at a conversion price of HK\$0.16 (after rights issue adjustment) per Share.

Other than the interests disclosed above, the register of substantial shareholders maintained by the Company pursuant to section 336 of the SFO discloses no other person as having a notifiable interest or short position in the issued share capital of the Company as at 31 October 2011.

## Share Options

The followings are the details of the share options of the Company and their movements during the Interim Period:

Grantee	Date of grant	Outstanding at 30 April 2011	Granted during the Interim Period	Exercised during the Interim Period	Cancelled/ Lapsed during the Interim Period	Outstanding at 31 October 2011	Exercisable period	Exercise price	Closing price per share before date on which the options were granted
<b>Directors</b>									
Ms. Lin Min	25 August 2009	3,080,700	-	-	-	3,080,700	25 August 2009 – 24 August 2012	1.587*	1.66
	25 August 2011	-	3,560,000	-	-	3,560,000	25 August 2011 – 25 August 2021	0.56	0.57
	25 August 2011	-	5,340,000	-	-	5,340,000	25 August 2012 – 25 August 2021	0.56	0.57
Mr. Yip Kar Hang, Raymond	25 August 2009	7,872,900	-	-	-	7,872,900	25 August 2009 – 24 August 2012	1.587*	1.66
	25 August 2011	-	4,400,000	-	-	4,400,000	25 August 2011 – 25 August 2021	0.56	0.57
	25 August 2011	-	6,600,000	-	-	6,600,000	25 August 2012 – 25 August 2021	0.56	0.57
Mr. Chan Chi On, Derek	25 August 2011	-	240,000	-	-	240,000	25 August 2011 – 25 August 2021	0.56	0.57
	25 August 2011	-	360,000	-	-	360,000	25 August 2012 – 25 August 2021	0.56	0.57
Mr. Cheung Kwok Keung	25 August 2009	684,600	-	-	-	684,600	25 August 2009 – 24 August 2012	1.587*	1.66
	25 August 2011	-	240,000	-	-	240,000	25 August 2011 – 25 August 2021	0.56	0.57
	25 August 2011	-	360,000	-	-	360,000	25 August 2012 – 25 August 2021	0.56	0.57
Mr. Lam Kam Tong	25 August 2011	-	240,000	-	-	240,000	25 August 2011 – 25 August 2021	0.56	0.57
	25 August 2011	-	360,000	-	-	360,000	25 August 2012 – 25 August 2021	0.56	0.57
Others	25 August 2009	3,080,700	-	-	-	3,080,700	25 August 2009 – 24 August 2012	1.587*	1.66
	25 August 2011	-	19,320,000	-	-	19,320,000	25 August 2011 – 25 August 2021	0.56	0.57
	25 August 2011	-	28,980,000	-	-	28,980,000	25 August 2012 – 25 August 2021	0.56	0.57
		14,718,900	70,000,000	-	-	84,718,900			
Exercisable at the end of the Interim Period						42,718,900			

\* The exercise price had been adjusted from HK\$1.81 to HK\$1.587 with the rights issue completed in March 2011.

## Purchase, Sale or Redemption of the Company's Listed Securities

During the Interim Period, neither the Company nor any of its subsidiaries purchased, sold or redeemed 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 Interim Period.

## Audit Committee

The audit committee currently comprises Mr. Chan Chi On, Derek, Mr. Cheung Kwok Keung and Mr. Lam Kam Tong, all of whom are independent non-executive Directors with appropriate professional qualifications and experience in financial matters. The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed the internal control and financial reporting matters. The interim results and the unaudited financial statements for the six months ended 31 October 2011 have been reviewed by the audit committee.

## Remuneration Committee

The remuneration committee of the Company was established, with specific terms of reference in compliance with the Code as set out in Appendix 14 to the Listing Rules. The remuneration committee 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. Chan Chi On, Derek, Mr. Cheung Kwok Keung and Mr. Lam Kam Tong.

## 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 Interim Period.

## Publication of Interim Results Announcement and Interim Report

This interim results announcement is published on the website of the Company ([www.shengyuan.hk](http://www.shengyuan.hk)) and the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)). The interim report for the six months ended 31 October 2011 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.

## Board of Directors

As at the date of this report, Ms. Lin Min is the chairman and an executive Director; Mr. Yip Kar Hang, Raymond is an executive Director; Mr. Chan Chi On, Derek, Mr. Cheung Kwok Keung and Mr. Lam Kam Tong are the independent non-executive Directors.

By Order of the Board  
**Sheng Yuan Holdings Limited**  
**Yip Kar Hang, Raymond**  
*Executive Director and Chief Executive Officer*

Hong Kong, 16 December 2011