



**盛源控股有限公司**

**SHENG YUAN HOLDINGS LIMITED**

Stock Code: 851

**2012 INTERIM REPORT**

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## CORPORATE INFORMATION

### Board of Directors

#### Executive Directors

Ms. Lin Min (*Chairman*)  
Mr. Yip Kar Hang, Raymond (*CEO*)  
Ms. Kwong Wai Man, Karina

#### Independent Non-Executive Directors

Mr. Cheung Kwok Keung  
Mr. Lam Kam Tong  
Mr. Qi Wenju

### Audit Committee

Mr. Cheung Kwok Keung (*Chairman*)  
Mr. Lam Kam Tong  
Mr. Qi Wenju

### Remuneration Committee

Mr. Cheung Kwok Keung (*Chairman*)  
Mr. Lam Kam Tong  
Mr. Qi Wenju

### Nomination Committee

Ms. Lin Min (*Chairman*)  
Mr. Cheung Kwok Keung  
Mr. Lam Kam Tong

### Company Secretary

Mr. Or Wing Keung

### Stock Code

851

### Website

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

### 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 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

盛源控股有限公司

### Introduction

We have reviewed the condensed consolidated financial statements of Sheng Yuan Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 4 to 20, which comprises the condensed consolidated statement of financial position as of 30 June 2012 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 these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements 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 these condensed consolidated financial statements 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 condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*

Hong Kong  
20 August 2012

# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2012

		Six months ended	
	Notes	30 June 2012 HK\$'000 (unaudited)	31 October 2011 HK\$'000 (unaudited) (restated)
<b>Continuing operations</b>			
Revenue	3	43,151	28,952
Other income		302	269
Purchase of inventories for trading businesses		(38,083)	(27,419)
Salaries, commission and related benefits		(20,494)	(18,267)
Depreciation		(1,390)	(931)
Finance costs		(1,775)	(2,856)
Other administrative expenses		(8,639)	(7,057)
Loss before taxation		(26,928)	(27,309)
Taxation	4	–	–
Loss for the period from continuing operations		(26,928)	(27,309)
<b>Discontinued operations</b>			
Loss for the period from discontinued operations	5	–	(216)
Loss for the period	6	(26,928)	(27,525)
Other comprehensive (expense) income for the period			
Exchange difference arising on translation of foreign operation		(461)	832
Total comprehensive expense for the period attributable to owners of the Company		(27,389)	(26,693)
Loss per share	8		
From continuing and discontinued operations			
Basic and diluted		HK\$(0.02)	HK\$(0.02)
From continuing operations			
Basic and diluted		HK\$(0.02)	HK\$(0.02)

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2012

	Notes	30 June 2012 HK\$'000 (unaudited)	31 December 2011 HK\$'000 (audited)
Non-current assets			
Property, plant and equipment	9	7,931	7,439
Investment properties	9	11,423	11,542
Deposit paid for application of trading right		2,000	–
Trading rights		2,822	2,822
Statutory deposits		205	205
		<b>24,381</b>	22,008
Current assets			
Trade and other receivables and prepayments	10	70,304	33,412
Bank balances (trust and segregated accounts)		1,168	1,168
Bank balances (general accounts) and cash		49,981	104,019
		<b>121,453</b>	138,599
Current liabilities			
Trade and other payables and accruals	11	19,591	14,767
Obligations under finance leases – due within one year		37	37
Convertible notes	13	–	19,948
		<b>19,628</b>	34,752
Net current assets		<b>101,825</b>	103,847
Total asset less current liabilities		<b>126,206</b>	125,855
Capital and reserves			
Share capital	12	161,201	117,840
Share premium and reserves		(35,083)	(27,174)
		<b>126,118</b>	90,666
Non-current liabilities			
Obligations under finance leases – due after one year		88	107
Convertible notes	13	–	35,082
		<b>88</b>	35,189
		<b>126,206</b>	125,855

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2012

	Attributable to owners of the Company								Total HK\$'000
	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	
At 1 January 2012 (audited)	117,840	148,259	7,834	1,550	21,692	477	12,986	(219,972)	90,666
Loss for the period	-	-	-	-	-	-	-	(26,928)	(26,928)
Exchange difference arising on translation of foreign operation	-	-	-	(461)	-	-	-	-	(461)
Total comprehensive expense for the period	-	-	-	(461)	-	-	-	(26,928)	(27,389)
Shares issued upon conversion of convertible notes	43,361	25,914	-	-	-	-	(12,986)	-	56,289
Equity-settled share-based payment	-	-	-	-	6,552	-	-	-	6,552
Lapse of share options	-	-	-	-	(57)	-	-	57	-
<b>At 30 June 2012 (unaudited)</b>	<b>161,201</b>	<b>174,173</b>	<b>7,834</b>	<b>1,089</b>	<b>28,187</b>	<b>477</b>	<b>-</b>	<b>(246,843)</b>	<b>126,118</b>
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
At 31 October 2011 (unaudited)	117,840	148,259	7,834	1,523	19,474	477	12,986	(207,130)	101,263

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2012

	<b>Six months ended</b>	
	<b>30 June 2012 HK\$'000 (unaudited)</b>	<b>31 October 2011 HK\$'000 (unaudited)</b>
NET CASH USED IN OPERATING ACTIVITIES	<b>(49,856)</b>	(14,918)
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	<b>(1,917)</b>	(4,135)
Deposit paid for application of trading right	<b>(2,000)</b>	–
CASH USED IN INVESTING ACTIVITIES	<b>(3,917)</b>	(4,135)
CASH USED IN FINANCING ACTIVITY	<b>(19)</b>	–
DECREASE IN CASH AND CASH EQUIVALENTS	<b>(53,792)</b>	(19,053)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	<b>104,019</b>	144,439
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	<b>(246)</b>	610
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, REPRESENTED BY BANK BALANCES (GENERAL ACCOUNTS) AND CASH	<b>49,981</b>	125,996



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

## 1. Basis of Preparation

The Company is an investment holding company. Its subsidiaries are principally engaged in trading of telecommunication equipment, provision of securities brokerage and financial services and asset management services. The condensed consolidated financial statements for the current period cover the six-month period from 1 January 2012 to 30 June 2012. The corresponding amounts shown for the condensed consolidated statement of comprehensive income, statement of changes in equity, statement of cash flows and related notes cover six-month period from 1 May 2011 to 31 October 2011 and therefore may not be comparable with amounts shown for the current period. The directors considered it is appropriate to change the Company's financial year end date to 31 December during the eight months period ended 31 December 2011 in order to cope with the financial year end of the subsidiaries that generated revenue from securities brokerage and financial services and asset management services businesses.

During the eight months ended 31 December 2011, the trading of electrical products and copper concentrate segment was discontinued. Certain comparative figures in the condensed consolidated statement of comprehensive income had been restated to conform the presentation for the discontinued operation of the trading of electrical products and copper concentrate segment.

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").

## 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 30 June 2012 are consistent with those followed in the preparation of the Group's annual financial statements for the eight months ended 31 December 2011.

In the current interim period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA:

HKFRS 7 (Amendments)	Disclosures – Transfers of financial assets
HKAS 12 (Amendments)	Deferred tax – Recovery of underlying assets

As a result of the application of the HKAS12 (Amendments) "Deferred tax – Recovery of underlying assets", the directors of the Company reviewed the Group's portfolio of investment properties, which is located in the People's Republic of China ("PRC"), and concluded that the Group's investment properties are held under a business model whose objective is to consume substantially all of the economic benefits embodies in the investment properties over time, and that the presumption set out in HKAS12 (Amendments) is rebutted. Deferred taxation in relation to the investment properties was and is continued to be measured based on the tax consequences of recovering through use. Hence, the application of the above and another amendments to 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.

## 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 telecommunication equipment.
2. Securities brokerage and financial services.
3. Asset management services.

### 3. Segment Information *(continued)*

The segment information reported below does not include any amounts for the discontinued operations of trading of electrical products and copper concentrate, which are described in more detail in note 5. In prior period, the relevant discontinued operation segment was presented as a separate reportable segment and therefore, segment results for prior period is restated. Information regarding the above reportable and operating segments is reported below.

#### Continuing Operations

	Trading of telecommunication equipment Six months ended		Securities brokerage and financial services Six months ended		Asset management services Six months ended		Total Six months ended	
	30 June 2012 HK\$'000	31 October 2011 HK\$'000	30 June 2012 HK\$'000	31 October 2011 HK\$'000	30 June 2012 HK\$'000	31 October 2011 HK\$'000	30 June 2012 HK\$'000	31 October 2011 HK\$'000 (Restated)
REVENUE								
External sales	39,887	28,237	2,431	648	833	67	43,151	28,952
Inter-segment sales	–	–	–	–	2,394	360	2,394	360
Segment revenue	39,887	28,237	2,431	648	3,227	427	45,545	29,312
Elimination							(2,394)	(360)
Group revenue							43,151	28,952
RESULTS								
Segment results	(1,217)	(1,615)	(3,351)	(3,248)	(1,258)	(817)	(5,826)	(5,680)
Other income							302	269
Corporate expenses							(13,077)	(8,312)
Share options expense							(6,552)	(10,730)
Finance costs							(1,775)	(2,856)
Loss before taxation							(26,928)	(27,309)

Segment results represent the financial results of 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.

### 3. Segment Information *(continued)*

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

#### Continuing Operations

	<b>30 June 2012 HK\$'000</b>	31 December 2011 HK\$'000
Segment assets:		
Trading of telecommunication equipment	<b>28,713</b>	22,031
Securities brokerage and financial services	<b>48,294</b>	18,459
Asset management services	<b>141</b>	142
Total segment assets	<b>77,148</b>	40,632
Investment properties	<b>11,423</b>	11,542
Bank balances (general accounts) and cash	<b>49,981</b>	104,019
Other assets	<b>7,282</b>	4,414
Consolidated total assets	<b>145,834</b>	160,607

### 4. Taxation

No provision for Hong Kong Profits Tax has been made in the condensed consolidated financial statements for the six months ended 31 October 2011 and 30 June 2012 as the Company and its subsidiaries had no assessable profits arising in Hong Kong during the period. Hong Kong Profits Tax is charged at 16.5% of the estimated assessable profit for the six months ended 31 October 2011 and 30 June 2012.

No provision for Enterprise Income Tax of the PRC has been made in the condensed consolidated financial statements for the six months ended 31 October 2011 and 30 June 2012 as the subsidiaries in the PRC had incurred tax loss for the period. Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of PRC subsidiaries is 25% for current and prior interim periods.

## 5. Discontinued Operations

For the eight months ended 31 December 2011, the Group discontinued the trading of electrical products and copper concentrate segment. The loss for the period from the discontinued operations is analysed as follows:

	<b>Six months ended</b>	
	<b>30 June 2012 HK\$'000 (unaudited)</b>	<b>31 October 2011 HK\$'000 (unaudited)</b>
Loss of trading of electrical products and copper concentrate operations for the period	–	216

The results of trading of electrical products and copper concentrate operations for the period, which have been included in the condensed consolidated statement of comprehensive income, were as follows:

	<b>Six months ended</b>	
	<b>30 June 2012 HK\$'000 (unaudited)</b>	<b>31 October 2011 HK\$'000 (unaudited)</b>
Salaries, commission and related benefits	–	(195)
Other administrative expenses	–	(21)
Loss before taxation	–	(216)
Taxation	–	–
Loss for the period	–	(216)

## 6. Loss for the Period

The Group's loss for the period from continuing operations has been arrived at after charging (crediting):

	<b>Six months ended</b>	
	<b>30 June 2012 HK\$'000 (unaudited)</b>	<b>31 October 2011 HK\$'000 (unaudited)</b>
Share options expense	6,552	10,730
Rental income	(255)	(267)

## 7. Dividend

No dividend was paid, declared or proposed during the six months period ended 31 October 2011 and 30 June 2012. The directors do not recommend the payment of an interim dividend.

## 8. Loss Per Share

### From Continuing and Discontinued Operations

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

	<b>Six months ended</b>	
	<b>30 June 2012</b>	31 October 2011
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
Loss for the purposes of basic and diluted loss per share	<b>(26,928)</b>	(27,525)

	<b>Number of shares</b>	
	<b>30 June 2012</b>	31 October 2011
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	<b>1,340,411,043</b>	1,178,402,911

The computation of diluted loss per share from continuing and discontinued operations for the current and prior interim periods does not assume the conversion of the convertible notes and exercise of share options since it would result in a decrease in loss per share from continuing and discontinued operations.

## 8. Loss Per Share *(continued)*

### From Continuing Operations

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

	Six months ended	
	30 June 2012 HK\$'000 (unaudited)	31 October 2011 HK\$'000 (unaudited)
Loss for the period attributable to owners of the Company	26,928	(27,525)
Effect of loss for the period from discontinued operations	–	216
Loss for the purposes of basic and diluted loss per share from continuing operations	26,928	(27,309)

The denominators used are the same as those detailed above for basic and diluted loss per share from continuing and discontinued operations.

### From Discontinued Operations

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

	Six months ended	
	30 June 2012 HK\$'000 (unaudited)	31 October 2011 HK\$'000 (unaudited)
Loss for the period from discontinued operations	–	216
Loss per share from discontinued operations attributable to owners of the Company		
Basic and diluted	N/A	HK\$(0.0002)

The denominators used are the same as those detailed above for basic and diluted loss per share from continuing and discontinued operations.

## 9. Property, Plant and Equipment and Investment Properties

During the six months ended 30 June 2012, the Group acquired property, plant and equipment at an aggregate cost of approximately HK\$1,917,000 (six months ended 31 October 2011: HK\$4,135,000). During the six months ended 31 October 2011, the Group wrote off certain property, plant and equipment with a carrying amount of HK\$74,000, resulting in a loss of HK\$74,000.

The fair value of the Group's investment properties at 31 December 2011 have been arrived at on the basis of a valuation carried out on 31 December 2011 by an independent firm of surveyors, Avista Valuation Advisory Limited. 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 30 June 2012 when compare to 31 December 2011.

## 10. Trade and Other Receivables and Prepayments

	<b>30 June 2012 HK\$'000 (unaudited)</b>	31 December 2011 HK\$'000 (audited)
Trade receivables from trading business	<b>24,361</b>	18,765
Trade receivables arising from the business of securities brokerage		
– cash clients	<b>1,007</b>	1
– Hong Kong Securities Clearing Company Limited ("HKSCC")	<b>299</b>	–
	<b>1,306</b>	1
Loans to securities margin clients	<b>37,664</b>	10,567
Other receivables and prepayments	<b>6,973</b>	4,079
	<b>70,304</b>	33,412



## 10.Trade and Other Receivables and Prepayments *(continued)*

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

	<b>30 June 2012 HK\$'000 (unaudited)</b>	31 December 2011 HK\$'000 (audited)
0–30 days	<b>6,138</b>	11,697
31 to 60 days	<b>5,855</b>	6,152
61 to 90 days	<b>4,641</b>	917
Over 90 days	<b>9,033</b>	–
	<b>25,667</b>	18,766

The Group allows a credit period of 60 days to its trading customers from trading businesses. The settlement terms of trade receivables arising from the business of securities brokerage are usually one to two days after the trade date.

Loans to securities margin clients are repayable on demand and bear interest from 8% to 13% (31 December 2011: 8% to 13%) 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\$125,680,000 (31 December 2011: HK\$70,602,000). The percentage of collateral over the outstanding balance as at 30 June 2012 is ranged from 183% to 2227% (31 December 2011: from 140% to 923%). 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.

## 11.Trade and Other Payables and Accruals

	<b>30 June 2012 HK\$'000 (unaudited)</b>	31 December 2011 HK\$'000 (audited)
Trade payables from trading business	<b>16,104</b>	8,622
Trade payables arising from the business of securities brokerage and financial services		
– cash clients	<b>2,156</b>	1,104
– HKSCC	<b>–</b>	1,258
	<b>2,156</b>	2,362
Amounts due to securities margin clients	<b>96</b>	42
Other payables and accruals	<b>1,235</b>	3,741
	<b>19,591</b>	14,767

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>30 June 2012 HK\$'000 (unaudited)</b>	31 December 2011 HK\$'000 (audited)
0–60 days	<b>4,983</b>	8,622
61 to 180 days	<b>11,121</b>	–
	<b>16,104</b>	8,622

The settlement term of trade payable arising from the business of securities brokerage and financial services is two days after the trade date and aged within 30 days.

Amounts due to securities margin clients are repayable on demand and interest free. In the opinion of the directors, no aged analysis is disclosed for amounts due to securities margin clients as the aged analysis does not give additional value.

## 12.Share Capital

	Number of ordinary shares of HK\$0.10 each	Nominal value HK\$'000
<b>Authorised:</b>		
At 1 May 2011, 31 October 2011, 31 December 2011 and 30 June 2012	2,000,000,000	200,000
<b>Issued and fully paid:</b>		
At 1 May 2011, 31 October 2011 and 31 December 2011	1,178,402,911	117,840
Conversion of convertible notes ( <i>Note</i> )	433,610,000	43,361
At 30 June 2012	1,612,012,911	161,201

*Note:* During the period ended 30 June 2012, 433,610,000 ordinary shares at par value of HK\$0.1 each were issued as a result of conversion of the convertible notes with aggregate principal amount of HK\$60,018,000.

## 13.Convertible Notes

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

	HK\$'000
At 1 May 2011	52,335
Interest expenses	2,856
Interest paid	(840)
At 31 October 2011	54,351
Interest expenses	957
Interest paid	(278)
At 31 December 2011	55,030
Interest expenses	1,775
Interest paid	(516)
Converted during the period	(56,289)
At 30 June 2012	—

As at 31 December 2011, included in convertible notes of HK\$19,948,000 will mature within 1 year and the relevant amount was classified as current liabilities. Remaining amount of HK\$35,082,000 will mature after 1 year and the relevant amount was classified as non-current liabilities.

## 14.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 six months 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. During the six months ended 30 June 2012, 500,000 share options (six months ended 31 October 2011: nil) lapsed with the resignation of a staff. No share options had been exercised during the period ended 30 June 2012.

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

The Binomial model had 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 were 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\$6,552,000 for the six months ended 30 June 2012 (six months ended 31 October 2011: HK\$10,730,000) in relation to share options granted by the Company.

## 15.Major Non-cash Transaction

During the six months ended 30 June 2012, the holder of convertible notes with principal amount of HK\$60,018,000 had converted the convertible notes into 433,610,000 Company's shares. Details were disclosed in note 12.

## 16.Related Party Transactions

- (a) During the six months ended 30 June 2012, the Company recognised interest expenses on convertible notes of HK\$1,775,000 (six months ended 31 October 2011: HK\$2,856,000) which are held by Front Riches Investments Limited, the ultimate holding company of the Group.
- (b) During the six months ended 30 June 2012, the Company recognised management fee income on fund management of approximately HK\$743,000 (six months ended 31 October 2011: HK\$65,000) 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 controlling shareholder of the Company, together held 100,000 participating shares out of 102,500 participating shares of the Fund.

### (c) Compensation of Key Management Personnel

The remuneration of directors and other members of key management during the period was as follows:

	Six months ended	
	30 June 2012 HK\$'000	31 October 2011 HK\$'000
Salaries and other short-term employee benefits	5,146	2,288
Share options expense	2,872	3,500
	8,018	5,788

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 30 June 2012 (six months ended 31 October 2011: Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business and Financial Review

For the six months ended 30 June 2012 (the “Interim Period”), revenue of the Group from continuing operations was approximately HK\$43.2 million, as compared with approximately HK\$29.0 million for the six months ended 31 October 2011 (the “Comparable 6-Month Period”). The revenue from continuing operations of the Interim Period mainly reflects the gradual development of the trading of telecommunication equipment in the PRC and securities brokerage and financial services in Hong Kong during the Interim Period. Loss attributable to owners of the Company for the Interim Period was approximately HK\$27.4 million, versus approximately HK\$26.7 million of the Comparable 6-Month Period. The loss recorded was mainly due to the Group’s financial services platform in Hong Kong and the trading of telecommunication equipment in the PRC having been developing against a weak economy, which had slowed their paces towards reaching the economies of scale sufficient to overcome increased overheads incurred to support the growth in operations. In the financial year ended 31 December 2011, the Group has discontinued its trading of electrical products and copper concentrates operations in Hong Kong, and no further contributions were made during the Interim Period (Comparable 6-Month Period: Loss of HK\$0.21 million).

During the Interim Period, the Group continued to diligently operate the trading of telecommunication equipment in PRC, which is engaged in sourcing telecommunication equipment and products for local telecommunication companies. The revenue of the segment had improved to approximately HK\$39.9 million as compared with approximately HK\$28.2 million of the Comparable 6-Month Period. However, due to the low margin nature of the business caused by a competitive business environment and the business having yet to reach sufficient scale, segmental loss of approximately HK\$1.2 million was recorded (Comparable 6-Month Period: Loss of HK\$1.6 million).

With the aim at widening its income stream, the Group continued developing its financial services platform, comprising its securities brokerage and financial services arm Sheng Yuan Securities Limited (“SYSL”) and its asset management service arm Sheng Yuan Asset Management Limited (“SYAML”). As SYSL enlarged its client base and margin lending business thereby increasing margin loan interest and commission incomes and SYAML having made a full period of contribution during the Interim Period, they contributed approximately HK\$2.4 million and HK\$0.8 million in revenue respectively, as compared with approximately HK\$0.6 million and approximately HK\$0.07 million of the Comparable 6-Month Period. Challenged by weak economy and Hong Kong financial market (as evidenced by the low average daily turnover on the Hong Kong Stock Exchange of approximately HK\$57 billion per day during the first half of 2012 versus approximately HK\$76 billion per day in 2011), the growth of SYSL and SYAML have been hampered while overheads rose as resources were allocated in support of their development. As a result, segmental loss of approximately HK\$3.4 million and HK\$1.3 million were recorded for the Group’s securities brokerage and financial services segment and asset management service segment respectively during the Interim Period (Comparable 6-Month Period: Loss of HK\$3.2 million and HK\$0.8 million).

## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### Prospects

The environment for the Group's trading of telecommunication operations in the PRC is very competitive and is characterized by low margins. The Group shall seek to improve such operations via further development of its business network and product roster, with the aim at reaching sufficient economies of scale.

Moving into the financial services industry is one of key initiatives undertaken by the Group to open new revenue streams. With securities brokerage as core, the Group continues to explore and expand into other facets of a financial service platform. With the capability of providing a full array of services including advising and dealing in securities, asset management and corporate finance, the Group targets to benefit from the financial services industry as the economy recovers and financial market activities rebound. However, with the continued European debt crisis, tightened monetary supply in China and pessimistic sentiments in the United States leading to a continued weak global economic environment, the timing of a significant recovery has yet to be seen. Meanwhile, the Group shall seek to enhance operations and performance of the securities brokerage business via improving commission and financing income by expanding its client base and widening of business scope via dealings in futures contracts, as well as further cultivating the other services in support of its development.

The global economy has been and continues to be unstable and weak. Amidst such challenging environment, the Group shall not only allocate efforts to improve its current operations, but will also seek for new business opportunities in order to provide healthy returns for stakeholders 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 in general accounts maintained by the Group were approximately HK\$50.0 million, representing an decrease of 51.9% from approximately HK\$104.0 million as at 31 December 2011, which was largely due to increased margin lending to brokerage clients and working capital needs. As part of the application process for the license in dealings in futures, deposit paid for application of trading right of HK\$2.0 million was recorded (31 December 2011: nil). During the Interim Period, trade and other receivables and other prepayments have increased from approximately HK\$33.4 million to approximately HK\$70.3 million, which was mainly due to increase in margin loans to clients. Trade and other payables and accruals have also increased from approximately HK\$14.8 million to approximately HK\$19.6 million during the Interim Period, which was largely due to the Group's growth in trading business in the PRC. As all of the Group's outstanding convertible notes were converted into shares during the Interim Period, they are no longer recorded in the Group's current and non-current liabilities (31 December 2011: approximately HK\$19.9 million and approximately HK\$35.1 million respectively). As a result of all of the above, the Group's current assets and current liabilities as at the end of the Interim Period were approximately HK\$121.5 million (31 December 2011: HK\$138.6 million) and approximately HK\$19.6 million (31 December 2011: HK\$34.8 million) respectively. The Group has no borrowings as at 30 June 2012. The gearing of the Group, measured as total debts to total assets was significantly improved from approximately 34.4% as at 31 December 2011 to 0.1% as at the end of the Interim Period. At the end of the Interim Period, the Group recorded net assets of approximately HK\$126.1 million as compared with approximately HK\$90.7 million as at 31 December 2011, with the increase largely due to the aforementioned conversion of convertible notes 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.

### Capital Structure

During the Interim Period, a total of 433,610,000 ordinary shares at par value of HK\$0.1 each were issued as a result of conversion of the convertible notes with aggregate principal amount of HK\$60,018,000.

### Contingent Liabilities

As at 30 June 2012, the Group did not have any material contingent liabilities.

### Pledge of Assets

As at 30 June 2012, the obligations under finance leases of approximately HK\$125,000 were pledged by the assets with carrying amount of HK\$145,000.



## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### Employees and Remuneration Policies

As at 30 June 2012, the Group employed approximately 50 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 of Directors (the "Board") and are subject to the performance of the individual employees as well as the Group.

### DIRECTORS' INTERESTS IN SHARES

At 30 June 2012, the interests and short positions of the Directors and chief executive of the Company in the shares capital and underlying shares and convertible notes of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

#### Long position– 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 (Note)	Interest of spouse	735,154,800	45.60%

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

#### Long position– share options

Name of Directors	Capacity	Number of options held	Number of underlying shares
Ms. Lin Min	Beneficial owner	11,980,700	11,980,700
Mr. Yip Kar Hang, Raymond	Beneficial owner	18,872,900	18,872,900
Ms. Kwong Wai Man, Karina (note 1)	Beneficial owner	10,000,000	10,000,000
Mr. Chan Chi On, Derek (note 2)	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

Notes:

1) Ms. Kwong Wai Man, Karina was appointed on 1 February 2012.

2) Mr. Chan Chi On, Derek resigned on 12 July 2012.

## DIRECTORS' INTERESTS IN SHARES *(continued)*

### Long position– convertible notes

On 23 April 2012, all remaining convertible notes with aggregate principal amount of HK\$60,018,000 were converted for 433,610,000 ordinary shares of the Company.

Save as disclosed above, as at 30 June 2012, none of the Directors or chief executive had registered an interest or short position in the shares, underlying shares or convertible notes of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

### Directors' Rights to Acquire Shares or Debentures

Other than share option scheme 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 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 30 June 2012, 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 executive, the following shareholders had notified the Company of their relevant interests in the shares capital of the Company.

### Long position– Ordinary shares of HK\$0.10 each of the Company

Name of shareholder	Capacity	Number of shares held	Percentage of the issued share capital of the Company
Front Riches <i>(Note)</i>	Beneficial owner	735,154,800	45.60%

*Note:* Front Riches is a corporation controlled by Mr. Hu Yishi, whose spouse, Ms. Lin Min, is an executive Director.

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 shares capital of the Company as at 30 June 2012.

## 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	Exercise price HK\$ (note 1)	Vesting period	Exercisable period	Outstanding at 01-Jan-12	Cancelled/ Lapsed during the year	Transfer in/(out)	Outstanding at 30-Jun-12	Closing price per share before date on which the options were granted
<b>Executive Directors</b>									
Ms. Lin Min	25-Aug-09	1.587	N/A	25 Aug 2009 - 24 Aug 2012	3,080,700	—	—	3,080,700	1.66
	25-Aug-11	0.56	N/A	25 Aug 2011 - 25 Aug 2021	3,560,000	—	—	3,560,000	0.57
	25-Aug-11	0.56	25 Aug 2011 - 24 Aug 2012	25 Aug 2012 - 25 Aug 2021	5,340,000	—	—	5,340,000	0.57
Mr. Yip Kar Hang, Raymond	25-Aug-09	1.587	N/A	25 Aug 2009 - 24 Aug 2012	7,872,900	—	—	7,872,900	1.66
	25-Aug-11	0.56	N/A	25 Aug 2011 - 25 Aug 2021	4,400,000	—	—	4,400,000	0.57
	25-Aug-11	0.56	25 Aug 2011 - 24 Aug 2012	25 Aug 2012 - 25 Aug 2021	6,600,000	—	—	6,600,000	0.57
Ms. Kwong Wai Man, Karina (note 3)	25-Aug-11	0.56	N/A	25 Aug 2011 - 25 Aug 2021	—	—	4,000,000	4,000,000	0.57
	25-Aug-11	0.56	25 Aug 2011 - 24 Aug 2012	25 Aug 2012 - 25 Aug 2021	—	—	6,000,000	6,000,000	0.57
<b>Independent non-executive Directors</b>									
Mr. Chan Chi On, Derek (note 2)	25-Aug-11	0.56	N/A	25 Aug 2011 - 25 Aug 2021	240,000	—	—	240,000	0.57
	25-Aug-11	0.56	25 Aug 2011 - 24 Aug 2012	25 Aug 2012 - 25 Aug 2021	360,000	—	—	360,000	0.57
Mr. Cheung Kwok Keung	25-Aug-09	1.587		25 Aug 2009 - 24 Aug 2012	684,600	—	—	684,600	1.66
	25-Aug-11	0.56	N/A	25 Aug 2011 - 25 Aug 2021	240,000	—	—	240,000	0.57
	25-Aug-11	0.56	25 Aug 2011 - 24 Aug 2012	25 Aug 2012 - 25 Aug 2021	360,000	—	—	360,000	0.57
Mr. Lam Kam Tong	25-Aug-11	0.56	N/A	25 Aug 2011 - 25 Aug 2021	240,000	—	—	240,000	0.57
	25-Aug-11	0.56	25 Aug 2011 - 24 Aug 2012	25 Aug 2012 - 25 Aug 2021	360,000	—	—	360,000	0.57
					33,338,200	—	10,000,000	43,338,200	
Others	25-Aug-09	1.587		25 Aug 2009 - 24 Aug 2012	3,080,700	—	—	3,080,700	1.66
	25-Aug-11	0.56	N/A	25 Aug 2011 - 25 Aug 2021	19,320,000	(200,000)	(4,000,000)	15,120,000	0.57
	25-Aug-11	0.56	25 Aug 2011 - 24 Aug 2012	25 Aug 2012 - 25 Aug 2021	28,980,000	(300,000)	(6,000,000)	22,680,000	0.57
					84,718,900	(500,000)	—	84,218,900	
Exercisable at the end of the Interim Period								42,518,900	

### Notes:

- The exercise price for the option granted on 25 August 2009 had been adjusted from HK\$1.81 to HK\$1.587 with the rights issue completed in March 2011.
- Mr. Chan Chi On, Derek resigned on 12 July 2012.
- Ms. Kwong Wai Man, Karina was appointed on 1 February 2012.

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

During the Interim Period, 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 Interim Period except the following deviation.

Under the revised code provision E.1.2., the chairman of the Board should attend the annual general meeting. However, in the annual general meeting held on 17 May 2012, our chairman was unable to attend the meeting as she had other commitments. She appointed Mr. Yip Kar Hang, Raymond to chair the meeting on her behalf.

## CHANGES OF DIRECTOR'S INFORMATION

Changes of Director's information since the date of the 2011 annual report of the Company, which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules, are set out below:

1. With effect from 12 July 2012, Mr. Qi Wenju was appointed as an independent non-executive Director.
2. With effect from 12 July 2012, Mr. Chan Chi On, Dereck resigned to act as independent non-executive Director.

Save as disclosed above, the Company is not aware of other change in the Director's information which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

## AUDIT COMMITTEE

On 12 July 2012, Mr. Chan Chi On, Derek resigned and Mr. Qi Wenju was appointed as a member of the audit committee.

The audit committee of the Company currently comprises Mr. Cheung Kwok Keung (Chairman), Mr. Lam Kam Tong and Mr. Qi Wenju, 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 30 June 2012 have been reviewed by the audit committee.

## REMUNERATION COMMITTEE

On 12 July 2012, Mr. Chan Chi On, Derek resigned and Mr. Qi Wenju was appointed as a member of the 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. Cheung Kwok Keung (Chairman), Mr. Lam Kam Tong and Mr. Qi Wenju.

## NOMINATION COMMITTEE

The nomination committee of the Company was established on 27 March 2012, with specific terms of reference in compliance with the Code as set out in the Listing Rules. The nomination committee 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 namely Ms. Lin Min (Chairman), and two independent non-executive Directors namely, 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

The 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 30 June 2012 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, Mr. Yip Kar Hang, Raymond and Ms. Kwong Wai Man, Karina (all being the executive Directors); Mr. Cheung Kwok Keung, Mr. Lam Kam Tong and Mr. Qi Wenju (all being 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, 20 August 2012