



**盛源控股有限公司**

SHENG YUAN HOLDINGS LIMITED

Stock Code: 851



Interim Report  
**2014**

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## CORPORATE INFORMATION

### Board of Directors

#### Executive Directors

Mr. Wu Siu Lam, William  
Ms. Cheng Kit Sum, Clara

#### Non-Executive Director

Mr. Xu Guocai

#### Independent Non-Executive Directors

Mr. Lo Ka Wai  
Mr. Qi Wenju  
Mr. Wu Fred Fong

### Audit Committee

Mr. Lo Ka Wai (*Chairman*)  
Mr. Qi Wenju  
Mr. Wu Fred Fong

### Remuneration Committee

Mr. Wu Fred Fong (*Chairman*)  
Mr. Lo Ka Wai  
Mr. Qi Wenju

### Nomination Committee

Mr. Qi Wenju (*Chairman*)  
Mr. Lo Ka Wai  
Mr. Wu Fred Fong

### Company Secretary

Mr. Or Wing Keung

### Stock Code

851

### Website

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

### Share Registrar

Tricor Tengis Limited  
Level 22, Hopewell Centre  
183 Queen's Road East  
Hong Kong

### Registered Office

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2 Church Street  
Hamilton HM11  
Bermuda

### Principal Office in Hong Kong

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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 (Hong Kong) Limited

# 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 28, which comprise the condensed consolidated statement of financial position as of 30 June 2014 and the related condensed consolidated statement of profit or loss and other 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  
26 August 2014

# CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2014

		Six months ended	
	Notes	30 June 2014 HK\$'000 (unaudited)	30 June 2013 HK\$'000 (unaudited)
Revenue	3	190,288	42,421
Other income		10	2
Purchase of inventories for trading business		(186,873)	(39,631)
Salaries, commission and related benefits		(29,025)	(14,727)
Depreciation		(540)	(739)
Finance costs		(431)	(194)
Other expenses		(7,969)	(7,253)
Change in fair value of derivative financial instrument		350	–
Change in fair value of held for trading investments		287	–
Loss before taxation		(33,903)	(20,121)
Taxation	4	11	–
Loss for the period	5	(33,892)	(20,121)
<b>Other comprehensive (expense) income</b>			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange difference arising on translation of financial statements of foreign operation that may be subsequently reclassified to profit or loss		(210)	19
Total comprehensive expense for the period attributable to owners of the Company		(34,102)	(20,102)
Loss per share	7		
Basic and diluted		HK\$(0.02)	HK\$(0.01)

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2014

	Notes	30 June 2014 HK\$'000 (unaudited)	31 December 2013 HK\$'000 (audited)
Non-current assets			
Property, plant and equipment	8	2,485	2,972
Trading rights		3,322	3,322
Statutory deposits		1,730	1,705
Derivative financial instrument	14	350	–
		<b>7,887</b>	<b>7,999</b>
Current assets			
Trade and other receivables and prepayments	9	15,338	45,749
Held for trading investments	10	28,523	–
Bank balances (trust and segregated accounts)		108,866	7,171
Bank balances (general accounts) and cash		52,988	58,485
		<b>205,715</b>	<b>111,405</b>
Current liabilities			
Trade and other payables and accruals	11	108,277	18,550
Obligations under finance leases			
– due within one year		37	37
Tax liabilities		151	236
Loan from a shareholder	12	10,000	30,000
		<b>118,465</b>	<b>48,823</b>
Net current assets		<b>87,250</b>	<b>62,582</b>
Total assets less current liabilities		<b>95,137</b>	<b>70,581</b>
Capital and reserves			
Share capital	13	161,661	161,201
Share premium and reserves		(93,949)	(90,653)
		<b>67,712</b>	<b>70,548</b>
Non-current liabilities			
Obligations under finance leases			
– due after one year		13	33
Convertible notes	14	27,412	–
		<b>27,425</b>	<b>33</b>
		<b>95,137</b>	<b>70,581</b>

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2014

	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 January 2014 (audited)	161,201	174,173	7,834	93	16,233	477	-	(289,463)	70,548
Loss for the period	-	-	-	-	-	-	-	(33,892)	(33,892)
Exchange difference arising on translation of financial statements of foreign operations	-	-	-	(210)	-	-	-	-	(210)
Total comprehensive expense for the period	-	-	-	(210)	-	-	-	(33,892)	(34,102)
Equity settled share-based payment	-	-	-	-	11,795	-	-	-	11,795
Shares issued upon exercise of share options	460	1,904	-	-	(685)	-	-	-	1,679
Lapse of share options	-	-	-	-	(3,255)	-	-	3,255	-
Recognition of equity component of convertible notes	-	-	-	-	-	-	17,792	-	17,792
<b>At 30 June 2014 (unaudited)</b>	<b>161,661</b>	<b>176,077</b>	<b>7,834</b>	<b>(117)</b>	<b>24,088</b>	<b>477</b>	<b>17,792</b>	<b>(320,100)</b>	<b>67,712</b>
At 1 January 2013 (audited)	161,201	174,173	7,834	26	15,535	477	-	(254,473)	104,773
Loss for the period	-	-	-	-	-	-	-	(20,121)	(20,121)
Exchange difference arising on translation of financial statements of foreign operations	-	-	-	19	-	-	-	-	19
Total comprehensive income (expense) for the period	-	-	-	19	-	-	-	(20,121)	(20,102)
Lapse of share options	-	-	-	-	(1,711)	-	-	1,711	-
At 30 June 2013 (unaudited)	161,201	174,173	7,834	45	13,824	477	-	(272,883)	84,671

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2014

	<b>Six months ended</b>	
	<b>30 June 2014 HK\$'000 (unaudited)</b>	<b>30 June 2013 HK\$'000 (unaudited)</b>
NET CASH USED IN OPERATING ACTIVITIES	(3,657)	(391)
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(53)	(52)
Acquisition of held for trading investments	(28,236)	–
CASH USED IN INVESTING ACTIVITIES	(28,289)	(52)
FINANCING ACTIVITIES		
(Repayment to) advance from a shareholder	(20,000)	30,000
Repayment of obligations under finance leases	(20)	(19)
Proceeds on issue of convertible notes	45,000	–
Proceeds from issue of shares pursuant to exercise of share options	1,679	–
NET CASH FROM FINANCING ACTIVITIES	26,659	29,981
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(5,287)	29,538
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	58,485	65,482
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	(210)	19
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, REPRESENTED BY BANK BALANCES (GENERAL ACCOUNTS) AND CASH	52,988	95,039



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

## 1. Basis of Preparation

The Company is an investment holding company. Its subsidiaries are principally engaged in trading business, provision of securities brokerage and financial services and asset management services. The Group has operation mainly in Hong Kong.

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 (“HKAS”) 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 certain financial instruments that are measured at fair values.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2014 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2013.

### **Financial instruments**

#### ***Financial assets***

Financial assets are classified into financial assets at fair value through profit or loss (“FVTPL”) and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

## 2. Principal Accounting Policies *(continued)*

### **Financial instruments** *(continued)*

#### ***Financial assets*** *(continued)*

##### *Financial assets at FVTPL*

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets.



## 2. Principal Accounting Policies *(continued)*

### **Financial instruments** *(continued)*

#### ***Convertible notes***

The component parts of the convertible notes issued by the Group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the group entities' own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognised in equity will be transferred to share premium. Where the conversion option remains unexercised at the maturity date of the convertible notes, the balance recognised in equity will be transferred to accumulated losses. No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible notes using the effective interest method.

## 2. Principal Accounting Policies *(continued)*

### **Financial instruments** *(continued)*

#### ***Derivative financial instruments***

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which case the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

In addition, in the current interim period, the Group has applied, for the first time, the following new interpretation and amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA that are relevant for the preparation of the Group’s condensed consolidated financial statements:

- Amendments to HKFRS 10, HKFRS 12 and HKAS 27 Investment Entities;
- Amendments to HKAS 32 Offsetting Financial Assets and Financial Liabilities;
- Amendments to HKAS 36 Recoverable Amount Disclosures for Non-financial Assets;
- Amendments to HKAS 28 Novation of Derivatives and Continuation of Hedge Accounting; and
- HK(IFRIC) – Int 21 Levies.

The application of the above new interpretation and amendments to HKFRSs, in the current interim period has 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 business, including chemical products and energy and mineral products.
2. Securities brokerage and financial services.
3. Asset management services.

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

Information regarding the above reportable and operating segments is reported below.

	Trading business		Securities brokerage and financial services		Asset management services		Total	
	Six months ended		Six months ended		Six months ended		Six months ended	
	30 June 2014 HK\$'000 (unaudited)	30 June 2013 HK\$'000 (unaudited)	30 June 2014 HK\$'000 (unaudited)	30 June 2013 HK\$'000 (unaudited)	30 June 2014 HK\$'000 (unaudited)	30 June 2013 HK\$'000 (unaudited)	30 June 2014 HK\$'000 (unaudited)	30 June 2013 HK\$'000 (unaudited)
REVENUE								
External sales	187,013	39,781	2,222	1,647	1,053	993	190,288	42,421
Inter-segment sales	–	–	27	–	–	3,001	27	3,001
Segment revenue	187,013	39,781	2,249	1,647	1,053	3,994	190,315	45,422
Elimination							(27)	(3,001)
Group revenue							190,288	42,421
RESULTS								
Segment results	(886)	(296)	(4,816)	(4,351)	(4,028)	(1,696)	(9,730)	(6,343)
Other income							1	2
Corporate expenses							(12,585)	(13,605)
Share options expense							(11,795)	–
Finance costs							(431)	(175)
Change in fair value of derivative financial instrument							350	–
Change in fair value of held for trading investments							287	–
Loss before taxation							(33,903)	(20,121)

Segment results represent the financial results of each segment without allocation of certain other income, corporate expenses, share options expense, certain finance costs, change in fair value of derivative financial instrument and change in fair value of held for trading investments. This is the measure reported to the board of directors of the Company 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:

	30 June 2014 HK\$'000 (unaudited)	31 December 2013 HK\$'000 (audited)
Segment assets:		
Trading business	7,299	438
Securities brokerage and financial services	119,153	51,312
Asset management services	205	5,794
Total segment assets	126,657	57,544
Bank balances (general accounts) and cash	52,988	58,485
Other assets	33,957	3,375
Consolidated total assets	213,602	119,404
Segment liabilities:		
Trading business	134	40
Securities brokerage and financial services	107,608	16,760
Asset management services	52	193
Total segment liabilities	107,794	16,993
Tax liabilities	151	236
Loan from a shareholder	10,000	30,000
Other liabilities	27,945	1,627
Consolidated total liabilities	145,890	48,856

## 4. Taxation

Amount for the six months ended 30 June 2014 represents the overprovision of Hong Kong Profits Tax in previous years.

No provision for Hong Kong Profits Tax has been made in the condensed consolidated financial statements for the six months ended 30 June 2013 and 30 June 2014 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 30 June 2013 and 30 June 2014.

No provision for Enterprise Income Tax of the People's Republic of China (the "PRC") has been made in the condensed consolidated financial statements for the six months ended 30 June 2013 and 30 June 2014 as the subsidiary in the PRC had incurred tax loss for the periods. 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. Loss for the Period

The Group's loss for the period has been arrived at after charging:

	Six months ended	
	30 June 2014 HK\$'000 (unaudited)	30 June 2013 HK\$'000 (unaudited)
Staff costs (including directors' remuneration)		
Salaries and allowances and benefits	16,636	14,274
Retirement benefit scheme contribution	594	453
Share options expense	11,795	—
	29,025	14,727

## 6. Dividend

No dividend was paid, declared or proposed during the six months ended 30 June 2013 and 30 June 2014. 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:

	<b>Six months ended</b>	
	<b>30 June 2014 HK\$'000 (unaudited)</b>	<b>30 June 2013 HK\$'000 (unaudited)</b>
Loss for the purposes of basic and diluted loss per share	<b>(33,892)</b>	<b>(20,121)</b>

	<b>Number of shares</b>	
	<b>30 June 2014</b>	<b>30 June 2013</b>
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	<b>1,612,728,933</b>	<b>1,612,012,911</b>

The computation of diluted loss per share for the current and prior interim periods does not assume 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.

## 8. Property, Plant and Equipment

During the six months ended 30 June 2014, the Group acquired property, plant and equipment at an aggregate cost of approximately HK\$53,000 (six months ended 30 June 2013: HK\$52,000).



## 9. Trade and Other Receivables and Prepayments

	30 June 2014 HK\$'000 (unaudited)	31 December 2013 HK\$'000 (audited)
Trade receivables from trading business	130	–
Trade receivables arising from the business of securities brokerage		
– cash clients	22	–
– Hong Kong Securities Clearing Company Limited (“HKSCC”)	–	7,588
	22	7,588
Loans to securities margin clients	5,526	29,609
Trade receivables from asset management services	204	5,683
Other receivables and prepayments	9,456	2,869
	15,338	45,749

As at 30 June 2014 and 31 December 2013, all trade receivables from trading business and business of securities brokerage were aged within 30 days.

The Group allows a credit period of 90 days to its trading customers from trading business. The settlement terms of trade receivables arising from the business of securities brokerage are usually one to two days after the trade date.

The Group offsets certain trade receivables and trade payables when the Group currently has a legally enforceable right to set off the balances and intends either to settle on a net basis, or to realise the balances simultaneously.

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

Loans to securities margin clients are repayable on demand and bear interest from 8% to 11% (31 December 2013: 8% to 13%) per annum. In the opinion of the directors of the Company, 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\$60,084,000 (31 December 2013: HK\$201,227,000). The average percentage of collateral over the outstanding balance as at 30 June 2014 ranged from 278% to 5082% (31 December 2013: from 193% to 1778%). The fair value of pledged marketable securities of each individual margin client is higher than the corresponding outstanding loan. The Group is permitted to sell or repledge the marketable securities if the customer defaults payments.

The Group does not provide any credit term to its asset management services clients. The aged analysis of trade receivables arising from these clients based on invoice date is as follows:

### Trade receivables from asset management services

	30 June 2014 HK\$'000 (unaudited)	31 December 2013 HK\$'000 (audited)
0 to 30 days	157	5,640
31 to 60 days	11	13
61 to 90 days	26	30
Over 90 days	10	–
	<b>204</b>	<b>5,683</b>

## 10. Held for Trading Investments

	30 June 2014 HK\$'000 (unaudited)	31 December 2013 HK\$'000 (audited)
Held for trading investments include:		
Listed equity securities in Hong Kong, at fair value	18,218	–
Investment fund in Hong Kong, at fair value	10,305	–
	<b>28,523</b>	<b>–</b>

## 11. Trade and Other Payables and Accruals

	30 June 2014 HK\$'000 (unaudited)	31 December 2013 HK\$'000 (audited)
Trade payables arising from the business of securities brokerage and financial services		
– cash clients	93,915	14,346
– futures clients	–	304
– HKSCC	12,918	–
	106,833	14,650
Amounts due to securities margin clients	157	12
Other payables and accruals	1,287	3,888
	108,277	18,550

The settlement term of trade payables arising from the business of securities brokerage and financial services is two days after the trade date and aged within 30 days. Included in the trade payables of cash and futures clients arising from the business of securities brokerage and financial services, amount of HK\$93,609,000 (31 December 2013: HK\$14,284,000) bears prevailing market deposit rate at 0.001% (31 December 2013: 0.001%) per annum.

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

## 12. Loan from a Shareholder

The loan is borrowed from Front Riches Investments Limited ("Front Riches"). Amount is unsecured and carries interest at 3.5% per annum. The loan's due date is under negotiation for extension up to the date of report. In the opinion of directors of the Company, the loan is repayable on demand at the end of the reporting period.

## 13. Share Capital

	<b>Number of ordinary shares of HK\$0.10 each</b>	<b>Nominal value HK\$'000</b>
<b>Authorised:</b>		
At beginning and end of the period	2,000,000,000	200,000
<b>Issued and fully paid:</b>		
At 1 January 2013 (audited), 30 June 2013 (unaudited) and 31 December 2013 (audited)	1,612,012,911	161,201
Issue of shares pursuant to exercise of share options ( <i>Note</i> )	4,600,000	460
At 30 June 2014 (unaudited)	1,616,612,911	161,661

*Note:* During the period ended 30 June 2014, the Company issued and allotted a total of 4,600,000 shares of HK\$0.10 each in the Company to certain share options holder who exercised their share options. These shares issued rank pari passu with other shares in issue in all respects.

## 14. Convertible Notes

Pursuant to an agreement signed by a wholly-owned subsidiary of the Company, Sheng Yuan Financial Services Group Limited (“SYFS”), and WisePublic Holdings Limited, Most Eagle Holdings Limited, Covalue Commercial Development (HK) Co. Limited and Mr. Li Gang (collectively referred to as the “Subscribers”) on 9 April 2014, SYFS issued convertible notes with principal amount of HK\$45,000,000 to the Subscribers with zero coupon, conversion price of HK\$10,000 and maturity date of 16 June 2017. The shareholders of WisePublic Holdings Limited, Ms. Zhang Xiaomei, Mr. Wang Shengkun and Mr. Chen Bai Cao, are also the employees of SYFS and its subsidiaries. The convertible notes entitle the holders to convert them into ordinary shares of SYFS (the “Conversion Shares”) with certain profit conditions of SYFS and its subsidiaries as set out in a circular issued by the Company dated 16 May 2014.

The convertible notes contain two components, liability and equity elements. The equity element is presented in the equity heading “convertible notes reserve”. The effective interest rate of the liability component is 18.26% per annum.

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

	HK\$'000
At 1 January 2013 (audited), 30 June 2013 (unaudited) and 31 December 2013 (audited)	–
Recognition of liability component of convertible notes	27,208
Interest expenses	204
At 30 June 2014 (unaudited)	27,412

Two of the Subscribers, WisePublic Holdings Limited (the “First Guarantor”) and Mr. Li Gang (the “Second Guarantor”), provide the profit guarantee to SYFS and its subsidiaries on their consolidated profit after taxation as stated in the convertible notes agreement, and details below:

Relevant period	Profit guarantee
For financial year 2014	Not less than zero
For two financial years 2014 and 2015	Not less than HK\$20 million
For three financial years 2014, 2015 and 2016	Not less than HK\$50 million

## 14. Convertible Notes *(continued)*

In any relevant periods, the First Guarantor undertakes and agrees to compensate the shortfall with the profit guarantee by transferring any unconverted convertible notes or Conversion Shares held by it to SYFS at a consideration of HK\$1. The convertible notes transferred could be repurchased by the First Guarantor at HK\$1 within six months from the date of such transfer if the shortfall is made good by the subsequent consolidated profit after taxation of SYFS and its subsidiaries by the First Guarantor. The Second Guarantor agrees to compensate the remaining shortfall if the First Guarantor fail to fully compensate the shortfall by way of similar compensation method with the First Guarantor. In the situation of the actual profit is exceed the amount of the profit guarantee, the management of SYFS will have the right to pay any excess profits as bonus to employees and/or dividend to shareholders of SYFS. As at 30 June 2014, the derivative financial instrument of HK\$350,000 is recognised in the condensed consolidated statement of financial position in respect of the fair value of the profit guarantee.

## 15. Share Options

The Company's share option scheme was adopted on 24 September 2004 for the primary purpose of priority incentives or rewards to the participants (including but not limited to employees, directors, suppliers and customers of the Group).

The table below discloses movement of the Company's share options held by the participants and the consultant that the share options are issued under the general mandate of the Company:

	<b>Number of share options</b>
Outstanding as at 1 January 2014	73,200,000
Granted during the period	99,000,000
Exercised during the period	(4,600,000)
Expired during the period	(10,100,000)
Outstanding as at 30 June 2014	157,500,000

The closing price of the Company's shares immediately before 19 June 2014 and 20 June 2014, the dates of grant, was HK\$0.45 and HK\$0.49 respectively.

## 15. Share Options *(continued)*

The weighted average closing price of the Company's shares immediately before the dates on which the options were exercised was HK\$0.44.

In the current interim period, share options were granted to the consultant on 19 June 2014 and to the Group's directors and employees on 20 June 2014. The fair values of the options determined at the dates of grant using the Binomial model were HK\$7,578,000 and HK\$4,217,000 respectively.

The following assumptions were used to calculate the fair values of share options:

	19 June 2014	20 June 2014
Grant date share price	HK\$0.450	HK\$0.490
Exercise price	HK\$0.500	HK\$0.490
Expected life	3 years	3 years
Expected volatility	55.491%	55.287%
Dividend yield	0%	0%
Risk-free interest rate	0.730%	0.803%

The Binomial model has been used to estimate the fair value of the options. 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.

## 16. Commitment

As at the end of the current interim period, the Group was committed to subscribe the investment fund in Hong Kong with HK\$9,900,000.

## 17. Fair Value Measurements of Financial Instruments

### **Fair value of the Group's financial assets that are measured at fair value on a recurring basis**

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation techniques and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

## 17. Fair Value Measurements of Financial Instruments *(continued)*

### Fair value of the Group's financial assets that are measured at fair value on a recurring basis *(continued)*

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial assets	Fair value as at 30 June 2014	Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable input
Listed equity securities classified as held for trading investments in the condensed consolidated statement of financial position	Listed equity securities – HK\$18,218,000 (As at 31 December 2013: nil)	Level 1	Quoted bid prices in an active market	N/A
Investment fund classified as held for trading investments in the condensed consolidated statement of financial position	Investment fund – HK\$10,305,000 (As at 31 December 2013: nil)	Level 2	Based on the fair value of underlying assets and liabilities which are substantially derived from level 1 inputs	N/A
Profit guarantee received classified as derivative financial instrument in the condensed consolidated statement of financial position	Assets – HK\$350,000 (As at 31 December 2013: nil)	Level 3	Discounted cash flow. Future guarantee received are estimated based on the weighted average of all possible outcomes and discounted at a rate that reflects the credit risk of comparable corporate bonds	Expected amount of the guarantee received estimated by the management of the Group <i>(note)</i>

**Note:** If the expected amount of the guarantee received to the valuation model had been 5% increased/decreased while all other variables were held constant, the carrying amounts of derivative financial instrument would increase/decrease by approximately HK\$20,000. In management's opinion, the sensitivity analysis is unrepresentative as it does not reflect the exposure during the period.



## 17. Fair Value Measurements of Financial Instruments *(continued)*

### **Fair value of the Group's financial assets that are measured at fair value on a recurring basis *(continued)***

There were no transfer between levels 1, 2 and 3 for the year ended 31 December 2013 and six months ended 30 June 2014.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the condensed consolidated financial statements approximate their fair values.

### ***Reconciliation of Level 3 fair value measurements of financial assets***

	HK\$'000
At 1 January 2013 (audited), 30 June 2013 (unaudited) and 31 December 2013 (audited)	–
Total gain in profit or loss	350
At 30 June 2014 (unaudited)	350

### ***Fair value measurements and valuation processes***

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group would consider engaging independent valuer to perform the valuation on regular basis. The management of the Group works closely with the valuer to establish the appropriate valuation techniques and inputs to the model.

For the valuation of profit guarantee received, the management of the Company estimated the expected amount of the guarantee received based on the current available information. Information about the valuation techniques and inputs used in determining the fair value of various assets are disclosed above.

## 18. Offsetting Financial Assets and Financial Liabilities

The Group offsets the following trade receivables and trade payables as the Group currently has a legally enforceable right to set off the balance, and intends either to settle on a net basis, or to realise the balance simultaneously.

	Gross amounts of recognised financial liabilities offset in the condensed consolidated statement of financial position	Gross amounts of recognised financial assets	Net amounts of financial assets presented in the condensed consolidated statement of financial position	Related amounts not offset in the condensed consolidated statement of financial position: Collateral pledged	Net amount
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>As at 30 June 2014 (unaudited)</b>					
<b>Financial assets by counterparty</b>					
Trade receivables from:					
– Cash clients (note 1)	12,980	(12,958)	22	–	22
– Loans to securities margin clients	5,526	–	5,526	(5,526)	–
<b>Total</b>	<b>18,506</b>	<b>(12,958)</b>	<b>5,548</b>	<b>(5,526)</b>	<b>22</b>
<b>As at 31 December 2013 (audited)</b>					
<b>Financial assets by counterparty</b>					
Trade receivables from:					
– Cash clients (note 1)	7,422	(7,422)	–	–	–
– Loans to securities margin clients	29,618	(9)	29,609	(29,609)	–
– HKSCC (note 2)	14,992	(7,404)	7,588	–	7,588
<b>Total</b>	<b>52,032</b>	<b>(14,835)</b>	<b>37,197</b>	<b>(29,609)</b>	<b>7,588</b>

## 18. Offsetting Financial Assets and Financial Liabilities *(continued)*

	Gross amounts of recognised financial assets offset in the condensed consolidated statement of financial position HK\$'000	Net amounts of financial liabilities presented in the condensed consolidated statement of financial position HK\$'000	Related amounts not offset in the condensed consolidated statement of financial position: Collateral pledged HK\$'000	Net amount HK\$'000
As at 30 June 2014 (unaudited)				
Financial liabilities by counterparty				
Trade payables to:				
– Cash clients (note 1)	106,873	(12,958)	93,915	93,915
– Amounts due to securities margin clients	157	-	157	157
– HKSCC (note 2)	12,918	-	12,918	12,918
Total	119,948	(12,958)	106,990	106,990

As at 31 December 2013 (audited)

### Financial liabilities by counterparty

Trade payables to:					
– Cash clients ( <i>note 1</i> )	21,768	(7,422)	14,346	–	14,346
– Futures clients ( <i>note 1</i> )	304	–	304	–	304
– Amounts due to securities margin clients	21	(9)	12	–	12
– HKSCC ( <i>note 2</i> )	7,404	(7,404)	–	–	–
Total	29,497	(14,835)	14,662	–	14,662

Notes:

- (1) Under the agreements signed between the Group and the customers, money obligations receivable and payable with the same customer are settled on net basis.
- (2) Under the Continuous Net Settlement, money obligations receivable and payable with HKSCC on the same settlement date are settled on net basis.

## 18. Offsetting Financial Assets and Financial Liabilities *(continued)*

The tables below reconcile the “Net amounts of financial assets and financial liabilities presented in the condensed consolidated statement of financial position”, as set out above, to the line items presented in the condensed consolidated statement of financial position.

	30 June 2014 HK\$'000 (unaudited)	31 December 2013 HK\$'000 (audited)
<b>Trade and other receivables and prepayments</b>		
Net amount of trade receivables as stated above	5,548	37,197
Amount not in scope of offsetting disclosures	9,790	8,552
Total amount of trade and other receivables and prepayments as stated in note 9	15,338	45,749
<b>Trade and other payables and accruals</b>		
Net amount of trade payables as stated above	106,990	14,662
Amount not in scope of offsetting disclosures	1,287	3,888
Total amount of trade and other payables and accruals as stated in note 11	108,277	18,550

## 19. Related Party Transactions

Except the loan from a shareholder as set out in the condensed consolidated statement of financial position on page 5 and note 12, the Group has entered into the following related party transactions.

- (a) During the six months ended 30 June 2014, the Company recognised interest expenses on loan from Front Riches of HK\$226,000 (six months ended 30 June 2013: HK\$175,000).
- (b) During the six months ended 30 June 2014, the Company recognised management fee income on asset management of approximately HK\$887,000 (six months ended 30 June 2013: HK\$743,000) from Sheng Yuan China Growth Fund (the “Fund”) in which Ms. Lin Min, the former chairlady and an former executive director of the Company, and Mr. Hu Yishi, the spouse of Ms. Lin Min and a substantial shareholder of the Company, together held 92% (six months ended 30 June 2013: 100%) of the participating shares in the Fund as at 30 June 2014.

### (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 2014 HK\$'000 (unaudited)	30 June 2013 HK\$'000 (unaudited)
Salaries and other short-term employee benefits	4,890	6,214
Share options expense	4,217	–
	9,107	6,214

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 2014 (six months ended 30 June 2013: Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business and Financial Review

For the six months ended 30 June 2014 (the “Interim Period”), revenue of the Group substantially increased to HK\$190.3 million, as compared with approximately HK\$42.4 million for the six months ended 30 June 2013 (the “Comparable Period”), which was largely attributable to an increase in revenue generated from the trading business during the Interim Period. Loss for the Interim Period was approximately HK\$33.9 million, as compared with approximately HK\$20.1 million of the Comparable Period. The increase in loss as compared with the Comparable Period was mainly attributable to the increase in salaries, commission and related benefits owing to (i) payment of share based payment to a consultant and employees amounting HK\$11.8 million and (ii) higher staffing costs incurred of approximately HK\$2.5 million.

During the Interim Period, the financial services group of the Company has undergone significant changes. On 9 April 2014, Sheng Yuan Financial Services Group Limited (“SYFS”), a direct wholly-owned subsidiary of the Company, entered into a subscription agreement with the several subscribers, pursuant to which the subscribers conditionally agreed to subscribe for and SYFS conditionally agreed to issue the convertible notes at an aggregate consideration of HK\$45 million (the “Convertible Notes”). Upon full conversion of the Convertible Notes at the conversion price, a total of 4,500 conversion shares of SYFS (the “Conversion Shares”) will be issued, representing approximately 81.8% of the existing issued share capital of SYFS and 45% of the issued share capital of SYFS as enlarged by the issue of the Conversion Shares. Upon full conversion of the Convertible Notes, the Company’s equity interest in SYFS will be reduced to approximately 55% and SYFS will become a non-wholly-owned subsidiary of the Company.

The above transaction was completed in June 2014. Upon completion, two subscribers, namely WisePublic Holdings Limited and Li Gang (the “Guarantors”) (who hold Convertible Notes with an aggregate amount of HK\$25 million) executed and delivered to SYFS and the Company the deed of profit guarantee, pursuant to which, the Guarantors guaranteed that the audited consolidated profits, or where applicable, the accumulated audited consolidated profits after taxation of the SYFS group for each of (i) the financial year ending 31 December 2014, (ii) the two financial years ending 31 December 2015 and (iii) the three financial years ending 31 December 2016 shall be not less than zero, HK\$20,000,000 and HK\$50,000,000, respectively. Furthermore, Ms. Zhang Xiaomei, Mr. Wang Shengkun and Mr. Chen Bai Cao, being the directors of WisePublic Holdings Limited, joined as the management of the SYFS group.

## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### **Business and Financial Review** *(continued)*

With the new management introduced and further strengthen the capital base of financial services group after the completion of the above transaction, the Group will continue to expand the securities brokerage and asset management services businesses by enlarging its client's base and set up more new private funds. Since the securities brokerage was still under development and the revenue merely from securities trading and margin loan financing, therefore, under the keen competition within the industry, the revenue from the securities brokerage business was only approximately HK\$2.2 million for Interim Period (the Comparable Period: approximately HK\$1.6 million) and the segment loss was approximately HK\$4.8 million during the Interim Period (the Comparable Period: approximately HK\$4.4 million).

For asset management, in April 2014, one major fund holder of Sheng Yuan China Growth Fund (the "Fund") served a redemption notice to redeem their investment in the Fund. The operating results of the asset management segment has been negatively affected. The remaining fund holder has also served the redemption notice to redeem his investment in July 2014 and the fund is undergoing liquidation now. The effect will be reflected in the performance of the asset management segment in the second half of 2014. As part of the compensation for the loss on the redemption, in May 2014, Sheng Yuan Asset Management Limited has been engaged as the investment manager with a new investment fund. For the Interim Period, the revenue for the asset management business was approximately HK\$1.0 million (the Comparable Period: approximately HK\$1.0 million) while segment loss increased to approximately HK\$4.0 million for the Interim Period from approximately HK\$1.7 million for the Comparable Period.

In order to provide a new stream of income for financial business, the Group also commenced the proprietary trading business in June 2014 and mainly invested in listed shares in Hong Kong secondary market and private investment fund. The contribution/gain from proprietary trading business for the Interim Period was approximately HK\$287,000 represented by the change in fair value of held for trading investments in the financial statements.

In order to expand and improve the operations of trading business, the Group has explored more business opportunities by seeking trading on other attractive products like energy and mineral products. To cope with the expansion of the trading business, the Group has set up an office in Shenzhen. However, the sales volume for such products is huge but the sale margin is rather slim. Therefore, revenue and segmental loss for trading business for the Interim Period were approximately HK\$187.0 million and HK\$0.9 million respectively (the Comparable Period: HK\$39.8 million and HK\$0.3 million respectively).

## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### Prospects

For financial services group, securities brokerage and asset management services are still the main core businesses and the Group will continue to enlarge its client's base in order to reach a sufficient scale of operations. In additions, the Group plans to diversify its financial products and services by including the distribution of note/bond, placement of shares, fund distribution, investment consulting, personal wealth management service, financing matchmaking and etc. in future. In order to match the growing market for institutional investors, the Group will build up a more comprehensive financial platform to capture the opportunities. The Group will also formulate more feasible plans in order to explore more sources of income for financial services group. Furthers, the Group will continue to recruit more talented staff to improve the structure of the financial services group.

As the economy of US and European countries is in gradual recovery and the commodity index is in upward trend, the Group will seek opportunities for trading business by introducing more new products for trading. The Group is also developing its marketing network in this field, together with the economic reform and the establishment of trade zone in PRC, the Group hope to become more competitive and strengthen its trading platform.

To enhance our operations and explore the business opportunities of our trading business, the Company and Rotaland Limited (the "Consultant") entered into a consultancy agreement (the "Consultancy Agreement") on 19 June 2014, pursuant to which the Company engaged the Consultant to provide marketing and introduction services advice and guidance to support the Group's business expansion and development (the "Consultancy Services") for a fixed term of three years. As consideration for the Consultancy Services, the Company has conditionally granted to the Consultant an option, at a nominal consideration of HK\$1.00, to subscribe for a total of 70,000,000 Shares at an exercise price of HK\$0.50 per option share exercisable from the date of the Consultancy Agreement up to the third anniversary of the date of the Consultancy Agreement upon the achievement of certain performance target by a subsidiary of the Company. Details of the Consultancy Agreement are set out in the announcement of the Company dated 19 June 2014.

To further diversify our business of the Group, on 12 June 2014, Sheng Yuan Resources Limited ("Sheng Yuan Resources"), wholly-owned subsidiary of the Company, entered into (i) a memorandum of understanding with Guangdong Zhenrong Energy Co., Ltd. ("Guangdong Zhenrong") pursuant to which Sheng Yuan Resources intends to acquire and Guangdong Zhenrong and/or its subsidiary intends to sell part or all of its equity interests in Xin Hua Merchandising Exchange ("XHME") and (ii) a memorandum of understanding with World Tycoon Limited ("World Tycoon") pursuant to which Sheng Yuan Resources intends to acquire and World Tycoon intends to sell part or all of its equity interests in XHME. The memoranda of understanding do not constitute any legally binding commitments for the parties to enter into the proposed transaction. XHME is a merchandise exchange company established under the laws of the PRC on 11 November 2011 and approved by the Department of Commerce of Heilongjiang Province, the PRC.

The Group will continue to strengthen and improve the operations of existing businesses and seek suitable business opportunities for new business with aim to provide a healthy return to shareholders of the Company.



## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### Acquisitions and Disposals

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

### Liquidity and Financial Resources

As at the end of the Interim Period, cash and bank balances in general accounts and maintained by the Group were approximately HK\$53.0 million, as compared with approximately HK\$58.5 million as at 31 December 2013. Bank balances in trust and segregated accounts were approximately HK\$108.9 million (31 December 2013: approximately HK\$7.2 million). Trade and other receivables and prepayments have decreased from approximately HK\$45.7 million to approximately HK\$15.3 million, which was due to decrease in loan to securities margin clients. Held for trading investments was approximately HK\$28.5 million (31 December 2013: nil). Trade and other payables and accruals have increased from approximately HK\$18.6 million to approximately HK\$108.3 million, which was largely attributable to increase in the trade payable from securities brokerage. At the end of the Interim Period, the Group had an outstanding loan from a major shareholder at HK\$10.0 million (31 December 2013: HK\$30.0 million), which was recorded in the Group's current liabilities.

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\$205.7 million (31 December 2013: HK\$111.4 million) and approximately HK\$118.5 million (31 December 2013: HK\$48.8 million) respectively. The Group has no bank borrowings as at 30 June 2014. The gearing of the Group, measured as total debts to total assets, remained healthy at approximately 17.5% as at the end of the Interim Period (31 December 2013: 25.1%). At the end of the Interim Period, the Group recorded net assets of approximately HK\$67.7 million as compared with approximately HK\$70.5 million as at 31 December 2013. During the Interim Period, the Group financed its operation with internally generated cash flow and funds from the proceeds from subscription 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**

During the Interim Period, 4,600,000 shares of the Company were issued by exercise of share options.

### **Contingent Liabilities**

As at 30 June 2014, the Group did not have any material contingent liabilities.

### **Pledge of Assets**

As at 30 June 2014, the obligations under finance leases of approximately HK\$50,000 were pledged by the assets with carrying amount of approximately HK\$88,000.

### **Employees and Remuneration Policies**

As at 30 June 2014, the Group employed 46 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 30 June 2014, the interests and short positions of the Directors and chief executive of the Company in the shares, 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 (the "Model Code"), were as follows:

### Long Position – Ordinary Shares of HK\$0.10 each of the Company

Name of Directors	Capacity	Number of shares held	Percentage of the issued share capital of the Company
Mr. Wu Siu Lam, William	Beneficial owner	152,677	0.01%
Mr. Qi Wenju	Beneficial owner	600,000	0.04%
Ms. Kwong Wai Man, Karina ( <i>note</i> )	Beneficial owner	1,000,000	0.06%

### Long Position – Share Options

Name of Directors	Capacity	Number of options held	Number of underlying shares
Mr. Wu Siu Lam, William	Beneficial owner	10,000,000	10,000,000
Ms. Cheng Kit Sum, Clara	Beneficial owner	6,000,000	6,000,000
Mr. Xu Guocai	Beneficial owner	1,000,000	1,000,000
Mr. Lo Ka Wai	Beneficial owner	1,000,000	1,000,000
Mr. Wu Fred Fong	Beneficial owner	1,000,000	1,000,000
Ms. Kwong Wai Man, Karina ( <i>note</i> )	Beneficial owner	10,000,000	10,000,000

*Note:* Ms. Kwong Wai Man, Karina resigned on 1 August 2014.

Save as disclosed above, as at 30 June 2014, 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' INTERESTS IN SHARES *(continued)*

### Directors' Rights to Acquire Shares or Debentures

Other than the share option scheme 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.

### Directors' Interest in Competing Business

None of the Directors have an interest in any business constituting a competing business to the Group.

### Substantial Shareholders' Interests

As at 30 June 2014, 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, underlying shares and convertible notes of the Company.

### Long Position – Ordinary Shares of HK\$0.10 each of the Company

Name of shareholders	Capacity	Percentage of the issued share capital of the Company	
		Number of shares held	
Front Riches Investments Limited ( <i>note 1</i> )	Beneficial owner	405,154,800	25.06%
Tse Dik Chi	Beneficial owner	200,000,000	12.37%
King Lion Group Limited ( <i>note 2</i> )	Beneficial owner	158,500,000	9.80%

*Notes:*

(1) Front Riches Investments Limited is a corporation controlled by Mr. Hu Yishi.

(2) King Lion Group Limited is wholly owned by Smart Chant Limited which in turn is wholly owned by Mr. Gao Yongzhi.

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 shares, underlying shares and convertible notes of the Company as at 30 June 2014.

## 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\$)	Vesting period	Exercisable period	Outstanding at 1-Jan-14	Granted during the year	Exercised during the year	Cancelled/ Lapsed during the year	Transfer in/(out)	Outstanding at 30-Jun-14	Closing price per share before date on which the options were granted (HK\$)
<b>Executive Directors</b>											
Mr. Wu Siu Lam, William	24-Jul-13	0.365	N/A	24 Jul 2013 – 24 Jul 2016	10,000,000	-	-	-	-	10,000,000	0.365
Ms. Cheng Kit Sum, Clara (note 1)	20-Jun-14	0.49	N/A	20 Jun 2014 – 20 Jun 2017	-	6,000,000	-	-	-	6,000,000	0.49
Ms. Lin Min (note 2)	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 2011 – 25 Aug 2021	5,340,000	-	-	(5,340,000)	-	-	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 2011 – 25 Aug 2021	6,000,000	-	-	-	-	6,000,000	0.57
	24-Jul-13	0.365	N/A	24 Jul 2013 – 24 Jul 2016	1,000,000	-	(1,000,000)	-	-	-	0.365
<b>Non-executive Director</b>											
Mr. Xu Guocai	20-Jun-14	0.49	N/A	20 Jun 2014 – 20 Jun 2017	-	1,000,000	-	-	-	1,000,000	0.49
<b>Independent non-executive Directors</b>											
Mr. Lo Ka Wai (note 4)	20-Jun-14	0.49	N/A	20 Jun 2014 – 20 Jun 2017	-	1,000,000	-	-	-	1,000,000	0.49
Mr. Qi Wenju	24-Jul-13	0.365	N/A	24 Jul 2013 – 24 Jul 2016	600,000	-	(600,000)	-	-	-	0.57
Mr. Wu Fred Fong (note 5)	20-Jun-14	0.49	N/A	20 Jun 2014 – 20 Jun 2017	-	1,000,000	-	-	-	1,000,000	0.49
Mr. Cheung Kwok Keung (note 6)	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 2011 – 25 Aug 2021	360,000	-	-	(360,000)	-	-	0.57
Mr. Lam Kam Tong (note 7)	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 2011 – 25 Aug 2021	360,000	-	-	(360,000)	-	-	0.57
					31,700,000	9,000,000	(1,600,000)	(10,100,000)	-	29,000,000	
Employees in aggregate	25-Aug-11	0.56	N/A	25 Aug 2011 – 25 Aug 2021	4,040,000	-	-	-	-	4,040,000	0.57
	25-Aug-11	0.56	25 Aug 2011 – 24 Aug 2012	25 Aug 2011 – 25 Aug 2021	6,060,000	-	-	-	-	6,060,000	0.57
	24-Jul-13	0.365	N/A	24 Jul 2013 – 24 Jul 2016	18,400,000	-	(3,000,000)	-	-	15,400,000	0.365
	20-Jun-14	0.49	N/A	20 Jun 2014 – 20 Jun 2017	-	20,000,000	-	-	-	20,000,000	0.49
Other grantees	25-Aug-11	0.56	N/A	25 Aug 2011 – 25 Aug 2021	1,200,000	-	-	-	-	1,200,000	0.57
	25-Aug-11	0.56	25 Aug 2011 – 24 Aug 2012	25 Aug 2011 – 25 Aug 2021	1,800,000	-	-	-	-	1,800,000	0.57
	24-Jul-13	0.365	N/A	24 Jul 2013 – 24 Jul 2016	10,000,000	-	-	-	-	10,000,000	0.365
					73,200,000	29,000,000	(4,600,000)	(10,100,000)	-	87,500,000	
Exercisable at the end of the interim period										87,500,000	

Notes:

- Ms. Cheng Kit Sum, Clara appointed as executive director on 1 June 2014
- Ms. Lin Min retired as executive director on 25 April 2014
- Ms. Kwong Wai Man, Karina resigned as executive director on 1 August 2014
- Mr. Lo Ka Wai appointed as independent non-executive director on 5 March 2014
- Mr. Wu Fred Fong appointed as independent non-executive director on 1 March 2014
- Mr. Cheung Kwok Keung retired as independent non-executive director on 25 April 2014
- Mr. Lam Kam Tong resigned as independent non-executive director on 1 March 2014



## PURCHASE, SALE OR REDEMPTION 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 Corporate Governance Code (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 Code provision A.2.1, the role of the chairman and the chief executive officer should be separated and should not be performed by the same individual. Although the Company does not have a Chairman, all major decisions are made in consultation with the Board members and the senior management of the Company. There are three independent non-executive Directors in the Board. The Board considers that there is sufficient balance of power and the current arrangement maintains a strong management position of the Company.

Under the Code provision A.6.7, independent non-executive directors and other non-executive directors should attend general meetings. Mr. Xu Guocai, a non-executive Director; Mr. Qi Wenju, an independent non-executive Director and Mr. Cheung Kwok Keung a former independent non-executive Director were unable to attend the annual general meeting of the Company held on 25 April 2014 due to their unavoidable business engagement. Mr. Xu Guocai, a non-executive Director and Mr. Qi Wenju, an independent non-executive Director were unable to attend the special general meeting of the Company held on 6 June 2014 due to their unavoidable business engagement.

Under the Code provision E.1.2, the chairman of the board should attend the annual general meeting. However, in the annual general meeting held on 25 April 2014, Ms. Lin Min, our former chairman, was unable to attend the meeting as she had other business commitments. She appointed Mr. Wu Siu Lam, William, an executive Director and chief executive officer of the Company, to chair the meeting on her behalf.

## CHANGES OF DIRECTOR'S INFORMATION

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in information of the Directors subsequent to the date of the 2013 Annual Report are set out below:

Name of Directors	Details of the changes
Ms. Lin Min	retired by rotation as executive Director according to the bye-laws of the Company and did not offer herself for re-election due to her personal development and also ceased to be the chairlady of the Company and the nomination committee of the Company on 25 April 2014.
Ms. Kwong Wai Man, Karina	resigned as an executive Director, the chief financial officer of the Company and the authorised representative of the Company on 1 August 2014 due to her personal development.
Ms. Cheng Kit Sum, Clara	was appointed as an executive Director on 1 June 2014 and further appointed as the chief financial officer and the authorized representative of the Company on 1 August 2014.
Mr. Cheung Kwok Keung	retired by rotation as independent non-executive Director according to the bye-laws of the Company and did not offer himself for re-election in order to focus on his other business engagement and also ceased to be the chairman of the audit committee and remuneration committee of the Company and a member of the nomination committee of the Company on 25 April 2014.
Mr. Lo Ka Wai	an independent non-executive Director, has been appointed as the members of the audit committee, remuneration committee and nomination committee of the Company on 5 March 2014 and also appointed as the chairman of the audit committee of the Company on 25 April 2014.
Mr. Qi Wenju	an independent non-executive Director, has been appointed as the chairman of the nomination committee of the Company on 25 April 2014.
Mr. Wu Fred Fong	an independent non-executive Director, has been appointed as the members of the audit committee, remuneration committee and nomination committee of the Company on 1 March 2014 and also appointed as the chairman of the remuneration committee of the Company on 25 April 2014.

Other than those disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

## AUDIT COMMITTEE

The audit committee of the Company currently comprises Mr. Lo Ka Wai (Chairman), Mr. Qi Wenju and Mr. Wu Fred Fong, 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 2014 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. Wu Fred Fong (Chairman), Mr. Lo Ka Wai and Mr. Qi Wenju.

## NOMINATION COMMITTEE

The nomination committee of the Company was established, with specific term of reference in compliance with the Code as set out in Appendix 14 to 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 three independent non-executive Directors. The present members are Mr. Qi Wenju (Chairman), Mr. Lo Ka Wai and Mr. Wu Fred Fong.

## 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.





## BOARD OF DIRECTORS

As at the date of this report, the Board consists of Mr. Wu Siu Lam, William and Ms. Cheng Kit Sum, Clara (all being executive Directors), Mr. Xu Guocai (being non-executive Director), Mr. Lo Ka Wai, Mr. Qi Wenju and Mr. Wu Fred Fong (all being independent non-executive Directors).

By Order of the Board

**Sheng Yuan Holdings Limited**

**Wu Siu Lam, William**

*Executive Director and Chief Executive Officer*

Hong Kong, 26 August 2014