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盛源控股有限公司

SHENG YUAN HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)
(Stock code: 851)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2016

The board of directors (the “**Directors**”, collectively referred to as the “**Board**”) of Sheng Yuan Holdings Limited (the “**Company**”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “**Group**”) for the six months ended 30 June 2016 together with the comparative figures for the corresponding period in 2015 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2016

		Six months ended 30 June	
		2016	2015
	Notes	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Revenue	4	34,795	270,095
Other gains and losses	5	(29,456)	52,329
Other income		2,021	12
Purchase of inventories for trading business		–	(224,075)
Staff costs	6	(15,899)	(52,357)
Depreciation		(286)	(521)
Finance costs	6	(15,333)	(16,477)
Other expenses		(23,021)	(23,542)
Share of results of associates		(3,294)	(3,560)
(Loss)/Profit before income tax	6	(50,473)	1,904
Income tax expense	7	(2,021)	(1,020)
(Loss)/Profit for the period		(52,494)	884

		Six months ended 30 June	
		2016	2015
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited)	(Unaudited)
Other comprehensive income			
<i>Item that may be reclassified subsequently to profit or loss</i>			
– Exchange differences on translation of financial statements of foreign operations		<u>(1,677)</u>	<u>(153)</u>
Other comprehensive income for the period		<u>(1,677)</u>	<u>(153)</u>
Total comprehensive income for the period		<u>(54,171)</u>	<u>731</u>
(Loss)/Profit for the period attributable to:			
– Owners of the Company		<u>(52,491)</u>	888
– Non-controlling interests		<u>(3)</u>	<u>(4)</u>
		<u>(52,494)</u>	<u>884</u>
Total comprehensive income for the period attributable to:			
– Owners of the Company		<u>(54,168)</u>	735
– Non-controlling interests		<u>(3)</u>	<u>(4)</u>
		<u>(54,171)</u>	<u>731</u>
		<i>HK cents</i>	<i>HK cent</i>
		(Unaudited)	(Unaudited)
(Loss)/Earnings per share	9		
– Basic		<u>(1.51)</u>	<u>0.03</u>
– Diluted		<u>(1.51)</u>	<u>(0.10)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2016

		30 June 2016 <i>HK\$'000</i> (Unaudited)	31 December 2015 <i>HK\$'000</i> (Audited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	10	816	1,046
Trading rights		3,322	3,322
Interest in an associate		69,130	73,945
Derivative financial instruments		2,149	3,667
Deposits for acquisition of a subsidiary	14	3,500	–
Other assets		1,730	1,730
		<u>80,647</u>	<u>83,710</u>
Current assets			
Trade and other receivables and prepayments	11	27,525	291,230
Held for trading investments	12	206,347	184,304
Current tax assets		4,578	–
Trust bank balances held on behalf of clients		110,796	51,381
Cash and cash equivalents		48,015	60,536
		<u>397,261</u>	<u>587,451</u>
Current liabilities			
Trade and other payables and accruals	13	168,194	117,030
Borrowings		20,195	222,314
Convertible bonds		38,315	–
Current tax liabilities		2,961	5,067
		<u>229,665</u>	<u>344,411</u>
Net current assets		<u>167,596</u>	<u>243,040</u>
Total assets less current liabilities		<u>248,243</u>	<u>326,750</u>
Non-current liabilities			
Convertible bonds		123,578	148,462
		<u>123,578</u>	<u>148,462</u>
Net assets		<u>124,665</u>	<u>178,288</u>

	30 June 2016	31 December 2015
<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
EQUITY		
Share capital	174,478	174,328
Reserves	(67,612)	(13,842)
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Equity attributable to owners of the Company	106,866	160,486
Non-controlling interests	17,799	17,802
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Total equity	124,665	178,288
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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

1. GENERAL INFORMATION

Sheng Yuan Holdings Limited (the “**Company**”) is an exempted company with limited liability incorporated and domiciled in Bermuda. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and its principal place of business is Suites 4301-5, 43/F., Tower 1, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong. The Company’s shares are listed on The Stock Exchange of Hong Kong Limited (“**Stock Exchange**”).

The Company is an investment holding company. Its subsidiaries are principally engaged in provision of securities brokerage and financial services, asset management services, proprietary trading business and trading business.

The condensed consolidated financial statements for the six months ended 30 June 2016 were approved for issue by the board of directors on 26 August 2016.

These condensed consolidated financial statements contain selected explanatory notes primarily an explanation of the events and changes that are significant to an understanding of the changes in financial position and performance of the Group since the end of the last annual reporting period and do not include all information and disclosures required in the annual financial statements.

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

In the current period, the Group has applied the new standards, amendments and interpretations (the “**new HKFRSs**”) which are effective for the Group’s financial statements for the annual period beginning on 1 January 2016. HKFRSs include all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“**HKAS**”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”). The application of these new HKFRSs has had no impact on the disclosures or on the amounts recognised in the Group’s condensed consolidated financial statements. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in compliance with HKAS 34, Interim Financial Reporting issued by the HKICPA and with the applicable requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange. The accounting policies and methods of computation that have been used in the preparation of these condensed consolidated financial statements are consistent with those applied in the preparation of the Group's annual financial statements for the year ended 31 December 2015, except for the adoption of new HKFRSs.

4. SEGMENT INFORMATION

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. The business components in the internal financial information reported to the executive directors are determined following the Group's major service lines as follows:

- (a) securities brokerage and financial services – provision of discretionary and non-discretionary dealing services for securities, securities placing and underwriting services, margin financing and money lending services, corporate finance advisory and general advisory services;
- (b) asset management services – provision of fund management and discretionary portfolio management and investment advisory services;
- (c) proprietary trading – investment holding and securities trading; and
- (d) trading business – trading of chemical products and energy and minerals products.

No operating segments identified have been aggregated in arriving at the reportable segments of the Group. Each of these operating segments is managed separately as each of the service lines requires different resources as well as marketing approaches.

	Securities brokerage and financial services <i>HK\$'000</i>	Asset management services <i>HK\$'000</i>	Proprietary trading <i>HK\$'000</i>	Trading business <i>HK\$'000</i>	Total <i>HK\$'000</i>
Six months ended 30 June 2016					
(Unaudited)					
Revenue					
From external customers	6,238	28,557	–	–	34,795
From other segments	–	98	–	–	98
Reportable segment revenue	6,238	28,655	–	–	34,893
Reportable segment result	(4,957)	11,220	(27,640)	(2,754)	(24,131)
30 June 2016 (Unaudited)					
Reportable segment assets	122,992	18,932	207,529	140	349,593
Reportable segment liabilities	112,696	399	54,311	48	167,454

	Securities brokerage and financial services <i>HK\$'000</i>	Asset management services <i>HK\$'000</i>	Proprietary trading <i>HK\$'000</i>	Trading business <i>HK\$'000</i>	Total <i>HK\$'000</i>
Six months ended 30 June 2015					
(Unaudited)					
Revenue					
From external customers	19,625	16,279	–	234,191	270,095
From other segments	54	–	–	–	54
Reportable segment revenue	19,679	16,279	–	234,191	270,149
Reportable segment result	3,421	2,712	17,285	4,271	27,689
31 December 2015 (Audited)					
Reportable segment assets	93,092	27,039	185,382	224,228	529,741
Reportable segment liabilities	75,329	18,678	21,968	222,356	338,331

The measurement policies the Group uses for reporting segment results under HKFRS 8 are the same as those used in its financial statements prepared under HKFRSs, except that changes in fair value of derivative financial instruments, other income (excluding dividend income), directors' emoluments, interest expenses on convertible bonds and loans from a shareholder, share of results of associates accounted for using the equity method, income tax expense and corporate income and expenses which are not directly attributable to the business activities of any operating segment are not included in arriving at the operating results of the operating segments. Common expenditures are allocated between operating segments based on proportion of segment revenue where necessary. Inter-segment revenue are charged on the expenses incurred by the relevant subsidiary plus certain percentage.

Segment assets include all assets but interest in an associate; current tax assets; derivative financial instruments and bank balances of the Group. In addition, corporate assets which are not directly attributable to the business activities of any operating segment are not allocated to a segment, which primarily applies to the Group's headquarters. Segment liabilities include all liabilities but loans from a shareholder, current tax liabilities and convertible bonds. In addition, corporate liabilities which are not directly attributable to the business activities of any operating segment are not allocated to a segment.

The totals presented for the Group's operating segment result is reconciled to the Group's (loss)/profit before income tax as follows:

	Six months ended 30 June	
	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Reportable segment result	(24,131)	27,689
Changes in fair value of derivative financial instruments	(1,518)	(1,784)
Other income	21	12
Finance costs	(13,626)	(12,083)
Share of results of associates	(3,294)	(3,560)
Corporate expenses**	(7,925)	(8,370)
	<hr/>	<hr/>
Group's (loss)/profit before income tax	(50,473)	1,904
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** mainly staff costs, including directors' emoluments and other professional fees

5. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Changes in fair value of financial instruments classified as held for trading	(33,800)	67,664
Changes in third party interests in collective investment schemes	4,398	(15,163)
Impairment losses on other receivables	–	(10)
Net foreign exchange losses	(54)	(159)
Net losses on disposals of property, plant and equipment	–	(3)
	<hr/>	<hr/>
	(29,456)	52,329
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6. (LOSS)/PROFIT BEFORE INCOME TAX

	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
(Loss)/Profit before income tax is arrived at after charging:		
Finance costs		
– Effective interest on liability component of convertible bonds	13,431	12,083
– Interest on bank and other borrowings	1,707	4,394
– Interest on loans from a shareholder	195	–
	15,333	16,477
Staff costs, including directors' emoluments		
– Fees, salaries, allowances and bonuses	15,103	52,080
– Retirement benefit scheme contributions	796	277
	15,899	52,357
	<u><u>15,899</u></u>	<u><u>52,357</u></u>

7. INCOME TAX EXPENSE

For the six months ended 30 June 2016 and 2015, Hong Kong profits tax was provided at the rate of 16.5% on the estimated assessable profits for the respective periods.

For the six months ended 30 June 2016 and 2015, no provision for Corporate Income Tax of the People's Republic of China ("PRC") has been made as the Group did not derive any assessable profits in the PRC for the respective periods.

	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current tax		
Hong Kong profits tax		
– Provision for current period	2,032	1,020
– Over provision in respect of prior periods	(11)	–
	<u>2,021</u>	<u>1,020</u>
Total income tax expense	<u><u>2,021</u></u>	<u><u>1,020</u></u>

8. DIVIDENDS

No dividend was proposed or paid during the six months ended 30 June 2016 and 2015, nor has any dividend been proposed since the end of the reporting periods.

9. (LOSS)/EARNINGS PER SHARE

Basic (loss)/earnings per share

The calculation of basic loss per share is based on the loss attributable to owners of the Company of approximately HK\$52,491,000 (2015: profit of approximately HK\$888,000) and the weighted average number of 3,486,892,226 (2015: 3,474,315,042) ordinary shares in issue during the period.

Diluted loss per share

The calculation of diluted loss per share is based on the loss attributable to owners of the Company of approximately HK\$52,491,000 (2015: loss of approximately HK\$3,621,000) and the weighted average number of 3,486,892,226 (2015: 3,474,315,042) ordinary shares after adjusting for the effects of all dilutive potential ordinary shares for the period, calculated as follows:

(a) *(Loss)/Profit attributable to owners of the Company*

	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
For the purpose of basic (loss)/earnings per share	(52,491)	888
After tax effect of effective interest on the liability component of convertible bonds	–	2,585
After tax effect of fair value changes on the derivative component of convertible bonds	–	–
Effect of earnings on conversion of convertible bonds issued by a subsidiary of the Company	–	(7,094)
	<hr/>	<hr/>
For the purpose of diluted loss per share	(52,491)	(3,621)

(b) *Weighted average number of ordinary shares*

	Six months ended 30 June	
	2016	2015
	Number of shares (Unaudited)	Number of shares (Unaudited)
For the purpose of basic (loss)/earnings per share	3,486,892,226	3,474,315,042
Effect of share options	–	–
Effect of convertible bonds issued by the Company	–	–
Effect of contingent consideration shares	–	–
	<hr/>	<hr/>
For the purpose of diluted loss per share	3,486,892,226	3,474,315,042

On 16 June 2014, Sheng Yuan Financial Services Group Limited (“SYFS”), a wholly-owned subsidiary of the Company, issued convertible bonds with the principal amount of HK\$45,000,000. Subject to attainment of certain profit conditions, these convertible bonds are convertible into ordinary shares of SYFS at a conversion price of HK\$10,000, at the option of the holders of the convertible bonds, which created a potential dilutive effect to the basic loss/(earnings) per share. None of these convertible bonds are assumed to have been converted into ordinary shares of SYFS for the six months ended 30 June 2016 as it would result in decrease in diluted loss per share. In the calculation of the diluted loss per share for the six months ended 30 June 2015, these convertible bonds are assumed to have been converted into ordinary shares of SYFS.

On 19 November 2014 and 30 December 2014, the Company issued convertible bonds with aggregate principal amount of HK\$135,000,000. The computation of diluted loss per share for the six months ended 30 June 2016 and 2015 does not assume the conversion of these convertible bonds as it would result in a decrease in diluted loss per share.

The Company has outstanding share options, which were granted on 25 August 2011, 24 July 2013, 19 June 2014 and 20 June 2014 with an exercise price of HK\$0.280, HK\$0.183, HK\$0.250 and HK\$0.245 respectively. The computation of diluted loss per share for the six months ended 30 June 2016 and 2015 does not assume an exercise of these share options since it would result in a decrease in diluted loss per share.

The computation of diluted loss per share for the six months ended 30 June 2015 also does not assume the issue of the Company’s contingent consideration shares of 556,585,714 in aggregate as the relevant profit target as set out in the agreement entered into on 11 September 2014 has not been satisfied at 30 June 2015 and had not been fulfilled during the profit target period.

10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2016, the Group acquired property, plant and equipment with a cost of approximately HK\$63,000 (six months ended 30 June 2015: HK\$80,000). Property, plant and equipment with net carrying amount of approximately HK\$4,000 (six months ended 30 June 2015: HK\$3,000) were disposed of during the six months ended 30 June 2016.

11. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	30 June 2016 HK\$'000 (Unaudited)	31 December 2015 HK\$'000 (Audited)
Trade receivables	21,554	286,592
Other receivables and prepayments	5,971	4,638
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	27,525	291,230
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The analysis of trade receivables is as follows:

	30 June 2016 HK\$'000 (Unaudited)	31 December 2015 HK\$'000 (Audited)
Arising from the business of dealing in securities		
– Hong Kong Securities Company Limited	11	31,041
– Cash clients	–	1,361
– Margin clients	341	2,704
Arising from asset management services	17,993	26,974
Arising from financial advisory and consultancy services	2,631	488
Arising from proprietary trading	578	–
Arising from trading business	–	224,024
	<hr/>	<hr/>
	21,554	286,592
	<hr/> <hr/>	<hr/> <hr/>

The normal settlement terms of trade receivables arising from the business of dealing in securities are two business days after the respective trade dates. The amounts due from cash and margin clients are repayable on demand subsequent to the settlement date.

The Group does not provide any credit term to clients for its financial advisory and consultancy services as well as asset management services. Amount arising from proprietary trading represents deposits placed with a securities broker which is repayable on demand.

The amount arising from trading business represented bill receivables. The general credit periods granted to customers of trading business was 365 days.

At 30 June 2016 and 31 December 2015, the amounts due from margin clients are neither past due nor impaired except for an amount of HK\$703,000 which were past due for 181 – 365 days on 31 December 2015 following a trading suspension of the pledged securities at that date. Based on past experience, management believes that no impairment allowance is necessary due to their track record with the Group and the balances are still considered fully recoverable. The ageing analysis of trade receivables in respect of other balances, based on due date, is as follows:

	30 June 2016 HK\$'000 (Unaudited)	31 December 2015 HK\$'000 (Audited)
Not yet past due	578	224,024
0-30 days	4,942	36,496
31-60 days	4,618	2,843
61-90 days	1,995	2,961
91-180 days	5,548	9,173
181-365 days	2,922	8,391
Over 365 days	610	–
	<u>21,213</u>	<u>283,888</u>

12. HELD FOR TRADING INVESTMENTS

	30 June 2016 HK\$'000 (Unaudited)	31 December 2015 HK\$'000 (Audited)
Listed equity securities	62,791	17,173
Unlisted investment funds (<i>note</i>)	143,556	167,131
	206,347	184,304

Note:

Pursuant to the relevant subscription agreements, the Group's interests in the above investment funds are in the form of redeemable shares, which are puttable at the holder's option and entitles the Group to a proportionate stake in the respective funds' net assets. These investment funds are managed by the respective investment managers who are empowered to manage their daily operations and apply various investment strategies to accomplish their respective investment objective. The Group also served as an investment manager for certain of these investment funds and generated management fee income from managing assets on behalf of investors but is terminable by independent board of directors without a cause. The Group therefore does not consolidate the above investment funds in which it holds an interest.

13. TRADE AND OTHER PAYABLES AND ACCRUALS

	30 June 2016 HK\$'000 (Unaudited)	31 December 2015 HK\$'000 (Audited)
Trade payables	110,788	64,804
Third party interests in collective investment schemes	53,066	14,811
Other payables and accruals	4,340	37,415
	168,194	117,030

The analysis of trade payables is as follows:

	30 June 2016 HK\$'000 (Unaudited)	31 December 2015 HK\$'000 (Audited)
Arising from the business of dealing in securities		
– Cash clients	110,635	52,446
– Margin clients	153	12,358
	110,788	64,804

The normal settlement terms of trade payables arising from the business of dealing in securities are two business days after the respective trade dates. The amounts payable to cash and margin clients are repayable on demand.

No ageing analysis in respect of trade payables is disclosed as, in the opinion of the Directors, the ageing analysis does not give additional value in view of the business nature.

14. CAPITAL COMMITMENTS

On 17 May 2016, the Group, via a wholly-owned subsidiary, entered into a sale and purchase agreement for the acquisition of a licensed corporation under the Hong Kong Securities and Futures Ordinance (“Target Company”), the completion of which is conditional upon several conditions, including but not limited to the approvals by the Securities and Futures Commission in relation to the change of substantial shareholders.

Pursuant to the sale and purchase agreement, the consideration shall be the aggregate of HK\$7,000,000 and the net asset value of the remaining assets of the Target Company at the completion date. As at 30 June 2016, the Group had paid to the seller deposits of HK\$3,500,000 which is refundable to the Group under certain circumstances as specified in the sale and purchase agreement.

The above transaction was completed on 24 August 2016 for a total consideration of HK\$7,485,000.

INTERIM DIVIDEND

The Directors do not recommend the payment of interim dividend for the six months ended 30 June 2016 (2015: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND FINANCIAL REVIEW

For the six months ended 30 June 2016, the revenue of the Group substantially decreased to approximately HK\$34.8 million, representing 87.1% decrease as compared with approximately HK\$270.1 million for the six months ended 30 June 2015, which is largely attributable to the continual suspension of trading business in the first half of 2016. Loss for the six months ended 30 June 2016 was approximately HK\$52.5 million, as compared with profit of approximately HK\$0.9 million for the six months ended 30 June 2015. Such increase in loss is primarily attributable to (i) a decrease of revenue from securities brokerage and financial services; and (ii) a loss on changes in fair value financial instrument classified as held for trading, as the securities market in Hong Kong experienced a downturn in the first half of 2016.

During the six months ended 30 June 2016, investor sentiment in Hong Kong remained cautious amid concerns over the factors of slowing growth of the Mainland China economy, the Brexit and uncertain US interest rate hike. For the PRC and Hong Kong markets, the performance for the first half of the year was rather disappointing, with an accumulated decline of 5.1% in Hong Kong stocks and a considerable drop of 17.2% in A shares recorded. The Mainland China economy continued its downward trend in the first half of 2016 under the overlapping effect caused by slowdown in economic growth, difficult structural adjustments, and the effects of previous economic stimulus policies being absorbed, nevertheless, the GDP has grown by 6.7%, representing a decrease of 0.1% over 2015.

During the six months ended 30 June 2016, the total revenue of Sheng Yuan Financial Services Group Limited and its subsidiaries (collectively, the “**SYFS Group**”) decreased by nearly 3.1% to approximately HK\$34.8 million (2015: HK\$35.9 million).

For securities business, the revenue from securities brokerage and financial services during the six months ended 30 June 2016 decreased to approximately HK\$6.2 million (2015: HK\$19.6 million). Such decrease in revenue was mainly due to the inactive trading in Hong Kong stocks and placing market in light of the economic uncertainties in Hong Kong.

For asset management business, Sheng Yuan Asset Management Limited (“SYAM”) acts as the fund manager or investment adviser for 14 funds and 13 discretionary accounts. The total assets under management of SYAM have substantially increased by nearly 113.6% to more than HK\$4.7 billion (2015: approximately HK\$2.2 billion) as of 30 June 2016. During the six months ended 30 June 2016, SYAM recorded segment revenue of approximately HK\$28.6 million (2015: HK\$16.3 million), representing a significant increase of nearly 75.5%.

For corporate financing business, Sheng Yuan Capital (Hong Kong) Limited (“SYC”) commenced to carry out business during the six months ended 30 June 2016. By stepping up its efforts to explore potential opportunities, SYC had completed the preliminary works and recognised the income generated from two orders of financial advisory business during the reporting period. During the reporting period, SYC recorded an income of approximately HK\$1.3 million (2015: Nil).

In order to provide a diversified income for its financial business, the SYFS Group expanded the proprietary trading business during the six months ended 30 June 2016 and mainly invested in listed shares in Hong Kong market and private funds. In light of the sluggish Hong Kong stock market, the segment loss from proprietary trading business during the six months ended 30 June 2016 was approximately HK\$27.6 million (2015: segment profit of HK\$17.3 million).

As the commodity market remains sluggish, the Group has continued to suspend its trading business for the first half of 2016. The segment loss for trading business for the six month ended 30 June 2016 was approximately HK\$2.8 million (2015: segment gain of HK\$4.3 million).

PROSPECTS

In the second half of the year, apart from its traditional brokerage business, Sheng Yuan Securities Limited will further develop their intermediary businesses such as underwriting of IPO, placement of private notes, bonds and funds, as well as shares to deliver steady profit growth. SYAM will continue to step up its efforts in funds management and customised discretionary investment services to expand its customer base, at the same time keeping abreast of the market trends. SYC will march on financial advisory businesses such as IPO financing facilities advisory, merger and acquisition. For proprietary trading, the Group plans to increase its investment in fixed income products, seeking investment opportunities arising from the fluctuation of secondary market.

Though facing with the sluggish economy amid market downturn, the Group will keep on weathering through with great courage. Looking forward, the complexity and fluctuation of the market is likely to sustain. However, Hong Kong is increasingly important for its role as an access to overseas markets, with the gradual opening up of the capital market in Mainland China and the progressively strengthened interactions among cross-border investors. Looking ahead, the SYFS Group will make every effort to improve its profit in 2016 by virtue of its pioneering work style as well as steady and stable business model.

In order to focus on private equity and venture capital investment as well as conducting foreign investment activities and planning to expand its business into Mainland China through Closer Economic Partnership Arrangement (CEPA) in the future, the Group has acquired a company with licences to carry on the business of advising on securities and asset management in Hong Kong in 24 August 2016.

On 8 August 2016, the Company entered into a memorandum of understanding (the “**MOU**”) with 3 corporate investors in the PRC (the “**Co-Promoters**”). Under the MOU, the Company and the Co-Promoters intend to form a joint venture securities company in Fujian, which will be principally engaged in securities related business with full licences to be approved by the China Securities Regulatory Commission, the PRC. The proposed investment in the joint venture securities company will facilitate the Group’s diversification and expansion of business development geographically.

ACQUISITIONS AND DISPOSALS

There was no material acquisition or disposal during the six months ended 30 June 2016.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2016, cash and bank balances in general accounts and maintained by the Group were approximately HK\$48.0 million, representing a decrease of approximately 20.7% from approximately HK\$60.5 million as at 31 December 2015. Balances in trust and segregated accounts were approximately HK\$110.8 million (31 December 2015: HK\$51.4 million). Trade and other receivables and prepayments approximately HK\$27.5 million as at 30 June 2016 (31 December 2015: HK\$291.2 million), which mainly represented decreased receivables from trading business and decreased trade volume arising from business of securities brokerage. Trade and other payables and accruals were approximately HK\$168.2 million as at 30 June 2016 (31 December 2015: HK\$117.0 million), which was due to an increase in trade payable from securities brokerage.

The Group's current assets and current liabilities as at 30 June 2016 were approximately HK\$397.3 million (31 December 2015: HK\$587.5 million) and approximately HK\$229.7 million (31 December 2015: HK\$344.4 million) respectively. The borrowings as at 30 June 2016 amounted to approximately HK\$20.2 million (31 December 2015: HK\$222.3 million). The gearing of the Group, measured as total debts to total assets, remained healthy at approximately 38.1% as at 30 June 2016 (31 December 2015: 55.2%). As at 30 June 2016, the Group recorded net assets of approximately HK\$124.7 million (31 December 2015: HK\$178.3 million), which was mainly due to the loss recorded during the six months ended 30 June 2016. During the six months ended 30 June 2016, the Group financed its operation with internally generated cash flow and funds from convertible bonds issued.

FOREIGN EXCHANGE EXPOSURE

The Group's transactions are mainly denominated in Hong Kong dollars, United States dollars, and Renminbi.

CAPITAL STRUCTURE

During the six months ended 30 June 2016, 3,000,000 shares of the Company were issued by exercise of share options.

CONTINGENT LIABILITIES

As at 30 June 2016, the Group did not have any material contingent liabilities.

PLEDGE OF ASSETS

As at 30 June 2016, the Group did not have any pledged assets.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2016, the Group employed 58 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.

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

During the six months ended 30 June 2016, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

CORPORATE GOVERNANCE

The Company is committed to maintain high standard of corporate governance standards and procedures to safeguard the interests of all shareholders and to enhance accountability and transparency. The Company has complied with the code on corporate governance practices (the “**Code**”) as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) during the six months ended 30 June 2016 except for the following deviations:

The Code provision A.2.1 stipulates that 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. Dr. Huan Guocang and Mr. Lo Ka Wai, both are independent non-executive Directors, were unable to attend the annual general meeting of the Company held on 27 May 2016 as they had other business commitments.

AUDIT COMMITTEE

The audit committee of the Company currently comprises Mr. Lo Ka Wai (Chairman), Dr. Huan Guocang 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 2016 have been reviewed by the audit committee.

REMUNERATION COMMITTEE

The remuneration committee of the Company is responsible for making recommendations to the Board on the Company's policy and packages of employment for the Directors and senior management. It comprises three independent non-executive Directors. The present members are Mr. Wu Fred Fong (Chairman), Dr. Huan Guocang and Mr. Lo Ka Wai.

NOMINATION COMMITTEE

The nomination committee of the Company is required, amongst other things, to review the structure, size and composition of the Board and make recommendations for changes as necessary, to identify individuals suitably qualified to become board members and select or make recommendations to the Board on the selection of, individuals nominated for directorships, to assess the independence of independent non-executive Directors, and to make recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for Directors in particular the Chairman and the Chief Executive Officer. It comprises three independent non-executive Directors. The present members are Dr. Huan Guocang (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 six months ended 30 June 2016.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the website of the Company (www.shengyuan.hk) and the Stock Exchange (www.hkexnews.hk). The interim report for the six months ended 30 June 2016 of the Company containing all information required by the Listing Rules will be dispatched to the shareholders of the Company and available on the above websites in due course.

BOARD OF DIRECTORS

As at the date of this announcement, the Board consists of Mr. Wu Siu Lam, William and Ms. Cheng Kit Sum, Clara (all being executive Directors), Dr. Huan Guocang, Mr. Lo Ka Wai 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 2016