



盛源控股有限公司

SHENG YUAN HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

Stock Code : 851

INTERIM
REPORT
2020

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Liu Yang
Mr. Zhou Quan
Mr. Zhao Yun

Non-Executive Director

Mr. Huang Shuanggang

Independent Non-Executive Directors

Mr. Zhang Jinfan (Appointed on 6 May 2020)
Ms. Wen Han Qiuzi (Appointed on 19 June 2020)
Ms. Huang Qin (Appointed on 19 June 2020)
Ms. Fang Fang (Resigned on 6 May 2020)
Mr. An Dong (Resigned on 19 June 2020)
Mr. Fung Tsz Wa (Resigned on 19 June 2020)

AUDIT COMMITTEE

Ms. Huang Qin (*Chairman*)
Mr. Zhang Jinfan
Mr. Huang Shuanggang

REMUNERATION COMMITTEE

Mr. Zhang Jinfan (*Chairman*)
Ms. Wen Han Qiuzi
Ms. Huang Qin

NOMINATION COMMITTEE

Mr. Liu Yang (*Chairman*)
Mr. Zhang Jinfan
Ms. Wen Han Qiuzi

COMPANY SECRETARY

Mr. Chiu Ming King (*FCIS FCS (PE)*)
(Appointed on 8 May 2020)

STOCK CODE

851

WEBSITE

www.shengyuan.hk

SHARE REGISTRAR

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Hong Kong

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Hamilton HM 11
Bermuda

PRINCIPAL OFFICE IN HONG KONG

26/F, 238 Des Voeux Road Central
Sheung Wan, Hong Kong

AUDITOR

BDO Limited
Certified Public Accountants
25th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong

SOLICITORS

Paul Hastings LLP
21–22 Floor
Bank of China Tower
1 Garden Road
Hong Kong

PRINCIPAL BANKERS

The Hong Kong and Shanghai Banking
Corporation
Bank of China (Hong Kong) Limited

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

TO THE BOARD OF DIRECTORS OF
SHENG YUAN HOLDINGS LIMITED
(incorporated in Bermuda with limited liability)

INTRODUCTION

We have reviewed the interim condensed consolidated financial statements set out on pages 5 to 29, which comprises the condensed consolidated statement of financial position of Sheng Yuan Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) as at 30 June 2020 and the related condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes (the “interim condensed consolidated financial statements”). The 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 directors are responsible for the preparation and presentation of the interim condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on the interim condensed consolidated financial statements based on our review. This report is made 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 Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONCLUSION

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

EMPHASIS OF MATTER — MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

Without further qualifying our conclusion, we draw attention to note 3 to the interim condensed consolidated financial statements, which indicates that the Group had a loss of approximately HK\$11,341,000 for the six months ended 30 June 2020, and as of that date, the Group had net current liabilities of approximately HK\$80,073,000 and net liabilities of approximately HK\$74,199,000. These conditions, along with other matters as set forth in note 3, indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern.

BDO Limited

Certified Public Accountants

Chiu Wing Cheung Ringo

Practising Certificate No.: P04434

Hong Kong, 28 August 2020

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2020

		Six months ended 30 June	
	Notes	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Fee and commission income	5	4,635	7,104
Interest income	5	—	40
Revenue		4,635	7,144
Other gains and losses	6	(7)	(3,604)
Other income	7	3	831
Staff costs	8	(6,699)	(14,671)
Depreciation		(1,544)	(69)
Finance costs	8	(3,914)	(13,113)
Impairment losses on trade receivables		—	(3,711)
Other expenses	8	(3,756)	(10,722)
Loss before income tax	8	(11,282)	(37,915)
Income tax expense	9	(59)	—
Loss for the period		(11,341)	(37,915)
Other comprehensive income			
Item that may be reclassified subsequently to profit or loss			
— Exchange differences on translating foreign operations			
Exchange differences arising during the period		(80)	14
Other comprehensive income for the period		(80)	14
Total comprehensive income for the period		(11,421)	(37,901)
Loss for the period attributable to:			
— Owners of the Company		(11,341)	(37,893)
— Non-controlling interests		—	(22)
		(11,341)	(37,915)
Total comprehensive income for the period attributable to:			
— Owners of the Company		(11,421)	(37,879)
— Non-controlling interests		—	(22)
		(11,421)	(37,901)
		HK cents	HK cents
Loss per share	11		
— Basic		(0.29)	(0.99)
— Diluted		(0.29)	(0.99)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2020

	Notes	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	12	2,518	2,911
Right-of-use assets	13	7,461	8,612
Trading rights		—	—
Goodwill		—	—
Other assets		1,705	1,705
		11,684	13,228
Current assets			
Trade and other receivables and prepayments	14	3,089	4,133
Held for trading investments	15	21	26
Current tax assets		678	678
Trust bank balances held on behalf of clients		14,876	17,394
Cash and cash equivalents		27,849	29,840
		46,513	52,071
Current liabilities			
Trade and other payables and accruals	16	16,090	18,739
Borrowings	17	102,473	100,142
Lease liabilities		2,018	1,896
Contract liabilities		6,005	450
		126,586	121,227
Net current liabilities		(80,073)	(69,156)
Non-current liabilities			
Lease liabilities		5,810	6,850
Net liabilities		(74,199)	(62,778)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2020

		30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
	Notes		
EQUITY			
Share capital	18	190,985	190,985
Reserves		(265,184)	(253,763)
Capital deficiency attributable to owners of the Company		(74,199)	(62,778)
Non-controlling interests		—	—
Capital deficiency		(74,199)	(62,778)

On behalf of the Board

Mr. Liu Yang
Director

Mr. Zhou Quan
Director

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2020

	Attributable to owners of the Company							Non-controlling interests		
	Share capital	Share premium	Shareholder's contribution	Capital redemption reserve	Share option reserve	Currency translation reserve	Accumulated losses	Total	Share of net assets of subsidiaries	Total
	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
At 1 January 2020 (Audited)	190,985	320,370	7,834	477	6,505	(1,319)	(587,630)	(62,778)	-	-
Loss for the period	-	-	-	-	-	-	(11,341)	(11,341)	-	-
Other comprehensive income										
— Exchange differences on translation of financial statements of foreign operations	-	-	-	-	-	(80)	-	(80)	-	-
Total comprehensive income for the period	-	-	-	-	-	(80)	(11,341)	(11,421)	-	-
Forfeiture of share option	-	-	-	-	(844)	-	844	-	-	-
At 30 June 2020 (Unaudited)	190,985	320,370	7,834	477	5,661	(1,399)	(598,127)	(74,199)	-	-

	Attributable to owners of the Company							Non-controlling interests		
	Share capital	Share premium	Shareholder's contribution	Capital redemption reserve	Share option reserve	Currency translation reserve	Accumulated losses	Total	Share of net assets of subsidiaries	Total
	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
At 1 January 2019 (Audited)	190,985	320,370	7,834	477	8,457	(1,333)	(512,218)	14,572	-	-
Loss for the period	-	-	-	-	-	-	(37,893)	(37,893)	(22)	(22)
Other comprehensive income										
— Exchange differences on translation of financial statements of foreign operations	-	-	-	-	-	14	-	14	-	-
Total comprehensive income for the period	-	-	-	-	-	14	(37,893)	(37,879)	(22)	(22)
Disposal of partial interest in a subsidiary (Note 19)	-	-	-	-	-	-	(431)	(431)	701	701
At 30 June 2019 (Unaudited)	190,985	320,370	7,834	477	8,457	(1,319)	(550,542)	(23,738)	679	679

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

		Six months ended 30 June	
	Notes	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Cash flows from operating activities			
Loss for the period		(11,341)	(37,915)
Adjustments for:			
Income tax expense	9	59	–
Depreciation of property, plant and equipment		393	69
Depreciation of right-of-use assets	13	1,151	–
Finance costs	8	3,914	13,113
Impairment losses on trade receivables		–	3,711
Interest income from banks and others	7	(3)	(21)
Operating loss before working capital changes		(5,827)	(21,043)
Decrease in other assets		–	25
Decrease in trade and other receivables and prepayments		1,044	29,282
Decrease in held for trading investments		5	4,406
Decrease in trust bank balances held on behalf of clients		2,518	7,919
Decrease in trade and other payables and accruals		(2,652)	(14,929)
Increase in contract liabilities		5,555	–
Increase in provision for reinstatement costs		–	1,205
Cash generated from operations		643	6,865
Interest paid		(1,059)	(13,001)
Interest received from banks and others		3	21
Income tax paid		(59)	–
<i>Net cash used in operating activities</i>		(472)	(6,115)
Cash flows from financing activities			
Proceeds from disposal of partial interest in a subsidiary that does not involve a loss of control	19	–	270
Proceeds from loans advanced from a related company		–	90,000
Repayments of principal portion of lease liabilities	13	(1,442)	–
Repayments of loans advanced from a related company		–	(80,000)
<i>Net cash (used in)/generated from financing activities</i>		(1,442)	10,270
Net (decrease)/increase in cash and cash equivalents			
		(1,914)	4,155
Cash and cash equivalents at beginning of the period		29,840	47,262
Effect of foreign exchange rate changes, on cash held		(77)	1
Cash and cash equivalents at end of the period		27,849	51,418

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

1. GENERAL INFORMATION

Sheng Yuan Holdings Limited (the “Company”) is an exempted company with limited liability incorporated and domiciled in Bermuda. The address of its registered office is Clarendon House, 2 Church Street, Hamilton, HM 11, Bermuda and its principal place of business is 26th Floor, 238 Des Voeux Road Central, Sheung Wan, Hong Kong. The Company’s shares are listed on The Stock Exchange of Hong Kong Limited (“Stock Exchange”).

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

The condensed consolidated financial statements for the six months ended 30 June 2020 were approved for issue by the board of directors on 28 August 2020.

These condensed consolidated financial statements contains selected explanatory notes primarily an explanation of the events and changes that are significant to an understanding of the changes in financial position and performance of the Group since the end of the last annual reporting period and do not include all information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2019.

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

In the current period, the Group has applied new standards, amendments and interpretations (the “new HKFRSs”) which are effective for the Group’s financial statements for the annual period beginning on 1 January 2020. HKFRSs include all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The adoption of new or amended HKFRSs has no material impact on the Group’s financial statements. The Group has not applied any new standard, amendment or interpretation that is not yet effective for the current accounting period.

Amendments to HKFRS 3

Amendments to HKAS 1 and HKAS 8

Definition of a Business

Definition of Material

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

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

Amendments to HKFRS 3 — Definition of a Business

The amendments clarify that a business must include, as a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs, together with providing extensive guidance on what is meant by a “substantive process”.

Additionally, the amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs, whilst narrowing the definition of “outputs” and a “business” to focus on returns from selling goods and services to customers, rather than on cost reductions.

An optional concentration test has also been added that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

Amendments to HKAS 1 and HKAS 8 — Definition of Material

The amendments clarify the definition and explanation of “material”, aligning the definition across all HKFRS Standards and the Conceptual Framework, and incorporating supporting requirements in HKAS 1 into the definition.

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 2019, except for the adoption of new HKFRSs.

In preparing the condensed consolidated financial statements, the directors have assessed the Group’s ability to continue as a going concern in view of the loss of approximately HK\$11,341,000 for the six months ended 30 June 2020 (six months ended 30 June 2019: approximately HK\$37,915,000), and as of that date, the Group had net current liabilities and net liabilities of approximately HK\$80,073,000 (31 December 2019: HK\$69,156,000) and HK\$74,199,000 (31 December 2019: HK\$62,778,000), respectively. In addition, as at 30 June 2020, the Group’s liabilities included borrowings of approximately HK\$102,473,000 (31 December 2019: HK\$100,142,000), from a wholly-owned subsidiary of Yuanyin Holdings Limited, a Company’s substantial shareholder, which will be due in January 2021. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group’s ability to continue as a going concern and therefore that, it may be unable to realise its assets and discharge its liabilities in the normal course of business.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

3. BASIS OF PREPARATION *(Continued)*

Notwithstanding the above conditions, the financial statements were prepared based on the assumption that the Group can be operated as a going concern after taking into consideration of the following plans and measures:

- Subsequent to 30 June 2020, the Company had entered into supplementary agreement with that wholly-owned subsidiary of Yuanyin Holdings Limited to extend the repayment date of the existing borrowing with principal amount of approximately HK\$100 million as at 30 June 2020 (as disclosed in note 17) to January 2022;
- Yuanyin Holdings Limited has agreed to provide sufficient working capital to satisfy the Group's working capital and other financing requirement through continual renewal of borrowings or continual provision of additional financing to the Group; and
- The Group is in the process of soliciting potential new customers and shall continue to apply various measures to tighten its operating expenditures in order to improve its financial performance and cash flows.

However, should the plans and measures be not implemented successfully, the Group may be unable to continue in business as a going concern, adjustments would have to be made in the condensed consolidated financial statements to write down the values of the assets to their net realisable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effect of these adjustments has not yet been reflected in the condensed consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

4. SEGMENT INFORMATION

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

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

During the six months ended 30 June 2020, there were no changes from prior periods in the measurement methods used to determine operating segments, reported segment profit or loss and reported segment assets and liabilities. No operating segments identified have been aggregated in arriving at the reportable segments of the Group. Each of these operating segments is managed separately as each of the service lines requires different resources as well as marketing approaches.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

4. SEGMENT INFORMATION (Continued)

	Securities brokerage and financial services HK\$'000	Asset management services HK\$'000	Proprietary trading HK\$'000	Trading business HK\$'000	Total HK\$'000
Six months ended 30 June 2020 (Unaudited)					
Reportable segment revenue					
External customers					
— Fee and commission income	1,378	3,257	—	—	4,635
— Interest income	—	—	—	—	—
	1,378	3,257	—	—	4,635
Fee and commission income from external customers					
— Timing of revenue recognition					
Point in time	1,378	—	—	—	1,378
Over time	—	3,257	—	—	3,257
	1,378	3,257	—	—	4,635
— Geographical region					
Hong Kong	1,378	3,257	—	—	4,635
	1,378	3,257	—	—	4,635
Reportable segment result	(2,166)	(2,992)	(426)	81	(5,503)
30 June 2020 (Unaudited)					
Reportable segment assets	16,731	1,700	149	52	18,632
Reportable segment liabilities	15,588	5,716	41	—	21,345

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

4. SEGMENT INFORMATION (Continued)

	Securities brokerage and financial services HK\$'000	Asset management services HK\$'000	Proprietary trading HK\$'000	Trading business HK\$'000	Total HK\$'000
Six months ended 30 June 2019 (Unaudited)					
Reportable segment revenue					
External customers					
— Fee and commission income	207	6,897	—	—	7,104
— Interest income	40	—	—	—	40
	247	6,897	—	—	7,144
Fee and commission income from external customers					
— Timing of revenue recognition					
Point in time	207	—	—	—	207
Over time	—	6,897	—	—	6,897
	207	6,897	—	—	7,104
— Geographical region					
Hong Kong	207	6,897	—	—	7,104
	207	6,897	—	—	7,104
Reportable segment result	(6,449)	(4,818)	(4,663)	(534)	(16,464)
30 June 2019 (Unaudited)					
Reportable segment assets	39,383	9,800	2,469	53	51,705
Reportable segment liabilities	38,500	188	71	26	38,785

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

4. SEGMENT INFORMATION *(Continued)*

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

	Six months ended 30 June	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Reportable segment result	(5,503)	(16,464)
Other income	3	21
Finance costs	(3,914)	(13,113)
Corporate expenses**	(1,868)	(8,359)
Group's loss before income tax	(11,282)	(37,915)

** mainly staff costs, including directors' emoluments, short-term lease expenses in respect of office properties and other professional fees.

5. FEE AND COMMISSION INCOME, INTEREST INCOME

	Six months ended 30 June	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Fee and commission income		
Securities brokerage and financial services segment:		
— Securities and futures brokerage	1,068	114
— Others	310	93
	1,378	207
Asset management services segment:		
— Fund and portfolio management and investment advisory	3,257	6,897
	3,257	6,897
	4,635	7,104
Interest income		
— Margin financing and money lending	—	40
	—	40
Total	4,635	7,144

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

6. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2020	2019
	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
Changes in fair value of held for trading investments	(5)	(3,664)
Net foreign exchange (losses)/gains	(2)	60
	(7)	(3,604)

7. OTHER INCOME

	Six months ended 30 June	
	2020	2019
	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
Interest income from banks and others	3	21
Sundry income	–	810
	3	831

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

8. LOSS BEFORE INCOME TAX

	Six months ended 30 June	
	2020	2019
	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
Loss before income tax is arrived at after charging/ (crediting):		
Finance costs		
— Interest on lease liabilities	524	—
— Interest on loans from a related company	3,390	13,113
	3,914	13,113
Staff costs, including directors' emoluments		
— Fees, salaries, allowances and bonuses	6,965	14,220
— Retirement benefit scheme contributions (Note)	(266)	451
	6,699	14,671
Other expenses		
— Auditor's remuneration	270	270
— Entertainment and gifts	9	334
— Other professional fees	1,266	820
— System license and subscriptions	342	580
— Listing expense	195	253
— Office expense	227	668
— Travelling expense	50	432
— Insurance expense	312	262
— Reinstatement cost	—	1,205
— Expense relating to short-term leases	137	4,562
— Others	948	1,336
	3,756	10,722

Note: For the six months ended 30 June 2020, the amount included forfeited contributions of HK\$336,000 (six months ended 30 June 2019: Nil) in respect of employees who left employment prior to such contributions vesting fully in accordance with the rules of the MPF Scheme.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

9. INCOME TAX EXPENSE

For the six month ended 30 June 2020, Hong Kong profits tax was calculated in accordance with the two-tiered profits tax rates regime. Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of qualifying corporation are taxed at 8.25%, and profits above HK\$2 million are taxed at 16.5%. The profits of corporation not qualifying for the two-tiered profits tax rates regime are taxed at a flat rate of 16.5%.

For the six months ended 30 June 2019, no Hong Kong profits tax has been provided in the condensed consolidated financial statements as the Group did not generate assessable profits in Hong Kong for the period.

	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current tax — Hong Kong profits tax		
— Provision for current period	—	—
— Under provision in respect of prior periods	59	—
Total income tax expense	59	—

10. DIVIDENDS

No dividend was proposed or paid during the six months ended 30 June 2020 and 2019, nor has any dividend been proposed since the end of the reporting periods.

11. LOSS PER SHARE

The calculation of basic loss per share is based on the loss attributable to owners of the Company of approximately HK\$11,341,000 (six months ended 30 June 2019: approximately HK\$37,893,000) and the weighted average number of 3,819,705,413 (six months ended 30 June 2019: 3,819,705,413) ordinary shares in issue during the period. The diluted loss per share is the same as the basic loss per share because the calculation of the diluted loss per share does not assume the exercise of the outstanding share options since their exercise would result in a decrease in loss per share.

12. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2020 and 30 June 2019, the Group did not acquire or dispose of any property, plant and equipment.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

13. LEASE

Right-of-use assets

As at 30 June 2020, the carrying amounts of right-of-use assets was approximately HK\$7,461,000 (As at 31 December 2019: approximately HK\$8,612,000) in respect of a number of leased office properties which it operates.

During the six months ended 30 June 2020, the Group did not enter into any additional lease agreement and as of that date, none of the leases contain variable lease payments.

Lease liabilities

As at 30 June 2020, the carrying amount of lease liabilities was approximately HK\$7,828,000 (As at 31 December 2019: approximately HK\$8,746,000).

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

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

The Group has no expense relating to leases of low-value assets, excluding short-term leases of low-value assets.

The total cash outflow for lease in the six months ended 30 June 2020 was HK\$1,442,000.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

14. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
Trade receivables	5,850	5,752
Less: Loss allowances	(4,570)	(4,570)
	1,280	1,182
Other receivables and prepayments	1,809	2,951
	3,089	4,133

The analysis of trade receivables is as follows:

	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
Arising from asset management services	5,850	5,752
Less: Loss allowances	(4,570)	(4,570)
	1,280	1,182

The Group does not provide any credit term to clients for its asset management services.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

14. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS *(Continued)*

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

	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
Not yet past due	38	1,146
0–30 days past due	–	3
31–60 days past due	–	3
61–90 days past due	21	3
91–180 days past due	71	1,329
181–365 days past due	2,452	18
Over 365 days past due	3,268	3,250
	5,850	5,752

15. HELD FOR TRADING INVESTMENTS

	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
Listed equity securities	21	26

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

16. TRADE AND OTHER PAYABLES AND ACCRUALS

	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
Trade payables arising from the business of dealing in securities and futures contracts		
— Hong Kong Securities Clearing Company Limited ("HKSCC")	—	10
— Cash clients	14,271	15,431
— Margin clients	604	783
	14,875	16,224
Other payables and accruals	1,215	2,515
	16,090	18,739

The normal settlement terms of trade payables arising from the business of dealing in securities are one to two business days after the respective trade dates. The normal settlement terms of trade payables arising from the business of dealing in futures contracts are one business day after the respective trade dates. The amounts payable to cash and margin clients are repayable on demand except for the required margin deposits for the trading of futures contracts. No ageing analysis in respect of trade payables is disclosed as, in the opinion of the directors, the ageing analysis does not give additional value in view of the business nature.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

17. BORROWINGS

	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
Loans from related companies		
— Principal amount	99,800	99,800
— Interest payables	2,673	342
	102,473	100,142

The loan at 31 December 2019 with the principal amount of HK\$99,800,000 is secured by a charge of the Company's shares owned by certain substantial shareholders of the Company, interest bearing at 12.5% per annum and repayable within twelve months from 31 December 2019.

The loan at 30 June 2020 with the principal amount of HK\$99,800,000 is secured by a charge of the Company's shares owned by certain substantial shareholders of the Company, interest bearing at 5% per annum and repayable within twelve months from 30 June 2020.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

18. SHARE CAPITAL

	Number of ordinary shares of HK\$0.05 each (Unaudited)	Nominal value HK\$'000 (Unaudited)
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Authorised:

At 1 January 2020 and 30 June 2020

8,000,000,000

400,000

Issued and fully paid:

At 1 January 2020 and 30 June 2020

3,819,705,413

190,985

	Number of ordinary shares of HK\$0.05 each (Audited)	Nominal value HK\$'000 (Audited)
--	--	---

Authorised:

At 1 January 2019 and 31 December 2019

8,000,000,000

400,000

Issued and fully paid:

At 1 January 2019 and 31 December 2019

3,819,705,413

190,985

All issued shares rank pari passu in all respects including all rights as to dividends, voting and return of capital.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

19. DISPOSAL OF PARTIAL INTEREST IN A SUBSIDIARY

During the six months ended 30 June 2019, the Group disposed of 9% of its interest in Sheng Yuan Sino Asset Management Limited ("SYSAM"), reducing its continuing interest to 91%. The proceeds on disposal of HK\$270,000 were received in cash. An amount of HK\$701,000 (being the proportionate share of the carrying amount of the net assets of SYSAM and goodwill arising on acquisition of SYSAM in prior year) has been transferred to non-controlling interests. The difference between the increase in the non-controlling interests and the consideration received of HK\$431,000 has been debited to accumulated losses.

During the year ended 31 December 2019, the Group re-purchased the 9% interest in SYSAM which was previously disposed, at a cash consideration of HK\$270,000. The difference between the decrease in the non-controlling interests and the consideration paid of HK\$401,000 had been credited to accumulated losses.

20. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these condensed consolidated financial statements, the Group had the following material transactions with related parties during the period:

	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Wholly-owned subsidiaries of an entity having significant influence over the Company		
— Interest expense (note (a))	3,390	5,977
— Investment advisory income (note (b))	3,158	—
An entity had significant influence over the Company		
— Interest expense (note (c))	—	4,419

Notes:

- (a) Interest expense of HK\$3,390,000 for the six months ended 30 June 2020 was in connection with the loan advanced from this entity. The principal amount of the loan was HK\$99,800,000 and was included under "Borrowings" (note 17) at 30 June 2020.
- (b) Investment advisory income of HK\$3,158,000 for the six months ended 30 June 2020 was in connection with the investment advisory agreements entered with Yuanyin International Limited and Yuanyin Asset Management Limited, which are wholly-owned subsidiaries of Yuanyin Holdings Limited, a substantial shareholder of the Company.
- (c) Interest expense of HK\$4,419,000 for the six months ended 30 June 2019 was in connection with the loan advanced from this entity. The principal amount of the loan was HK\$80,000,000 and was fully repaid in March 2019.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

20. RELATED PARTY TRANSACTIONS *(Continued)*

Compensation of key management personnel

	Six months ended 30 June	
	2020	2019
	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
Short-term employee benefits	1,077	2,145
Post-employment benefits	20	59
	1,097	2,204

21. FAIR VALUE MEASUREMENT

Financial instruments measured at fair value

The following table presents the Group's financial instruments measured at fair value on a recurring basis in the condensed consolidated statement of financial position according to the fair value hierarchy. The hierarchy groups financial instruments into three levels based on the relative reliability of significant inputs used in measuring the fair value of these financial instruments. The fair value hierarchy has the following levels:

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

21. FAIR VALUE MEASUREMENT (Continued)

Financial instruments measured at fair value (Continued)

	Level 1 HK\$'000 (note (a))	Level 2 HK\$'000 (note (b))	Level 3 HK\$'000	Total HK\$'000
At 30 June 2020 (Unaudited)				
Financial assets at fair value through profit or loss				
— Listed equity securities	21	—	—	21
At 31 December 2019 (Audited)				
Financial assets at fair value through profit or loss				
— Listed equity securities	26	—	—	26

The levels in the fair value hierarchy within which the financial instruments are categorised in its entirety are based on the lowest level of input that is significant to the fair value measurement. There were no transfers between levels 1 and 2 or transfers into or out of level 3 in the reporting periods. The Group's policy is to recognise transfers between levels of fair value hierarchy at the date of the event or change in circumstances that caused the transfer.

(a) Financial instruments in Level 1

The fair value of the listed equity securities is based on the quoted market prices at the reporting date. The quoted market price used for the listed equity securities held by the Group is the current bid price.

(b) Financial instruments in Level 2

The fair value was determined with reference to the reported net asset value of the investment fund.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

21. FAIR VALUE MEASUREMENT *(Continued)*

Financial instruments measured at amortised cost

The fair value of the financial assets and financial liabilities at amortised cost under current assets and current liabilities, respectively, is not materially different from their carrying amount as they are all short term in nature.

22. CORONAVIRUS DISEASE 2019 OUTBREAK

Due to the outbreak of the Coronavirus Disease 2019 ("COVID-19") epidemic in January 2020, a series of precautionary and control measures have been and continued to be implemented. It has impacted the global business environment. Up to the date of these financial statements, COVID-19 has not resulted in material impact to the Group. Pending the development and spread of COVID-19 subsequent to the date of these financial statements, further changes in economic conditions may have impact on the financial results of the Group, the extent of which could not be estimated as at the date of these financial statements. The Company will continue to monitor the development of COVID-19 and react actively to its impact on the financial position and operating results of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

INTERIM DIVIDEND

The directors (the “Directors”) of the Company do not recommend the payment of interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: Nil).

BUSINESS AND FINANCIAL REVIEW

Financial Summary

The COVID-19 has affected the Group’s revenue to a certain extent. For the six months ended 30 June 2020, due to various projects being postponed under COVID-19, the Group recorded fee and commission income of approximately HK\$4.6 million, representing 35% decrease as compared with approximately HK\$7.1 million for the six months ended 30 June 2019. Total revenue of the Group decreased to approximately HK\$4.6 million for the six months ended 30 June 2020, representing 35% decrease as compared with approximately HK\$7.1 million for the same period in 2019.

Loss for the six months ended 30 June 2020 was approximately HK\$11.3 million, as compared with loss of approximately HK\$37.9 million for the same period in 2019. Such decrease in loss is primarily attributable to the decreases in staff costs, the decreases in finance costs, the absence of impairment losses on trading rights and the decreases in other expenses for the first half of 2020. Both basic and diluted loss per share for the first half of 2020 is approximately 0.29 cents, compared with 0.99 cents for the same period of 2019.

Operation of Business Segments — Securities Brokerage and Financial Services

The Group provides securities brokerage and financial services via two of its subsidiaries, Sheng Yuan Securities Limited (“SYS”) and Sheng Yuan Capital (Hong Kong) Limited (“SYC”).

SYS is licensed to conduct Type 1 (dealing in securities), Type 2 (dealing in futures contracts), and Type 4 (advising on securities) regulated activities under the Securities and Futures Ordinance (“SFO”). Through SYS, the Group provides underwriting and placing services in equity and debt capital transactions, securities and futures brokerage services for securities, futures and options contracts, margin financing services, and custodian and handling services for client accounts on securities, futures, and options contracts. The fee and commission are based on certain percentage of the total transaction amounts.

MANAGEMENT DISCUSSION AND ANALYSIS

As at 30 June 2020, SYS had a total number of 5 employees. Among the 5 employees of SYS, 2 employees are licensed as responsible officers to conduct Type 1, Type 2, and Type 4 regulated activities. 1 employee is licensed as responsible officer to conduct Type 1 regulated activities and as representative to conduct Type 4 regulated activities. 1 employee is licensed as representative to conduct both Type 1 and Type 4 regulated activities. As at 30 June 2020, SYS maintained 637 client accounts, which is largely unchanged compared to the number of client accounts as at 30 June 2019. There was approximately HK\$14.9 million in client trust bank accounts, representing a 60% decrease from HK\$37.5 million as at 30 June 2019. Such decrease was mainly due to clients withdrawing funds out of their accounts as a result of the departure of a key senior management team.

SYC is licensed to conduct Type 6 (advising on corporate finance) regulated activities under the SFO. SYC provides corporate advisory services, for a fee, to corporate clients for their corporate actions to ensure clients' compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Codes on Takeovers and Mergers and Share Buy-backs. Such corporate actions include IPO, placing of shares and other securities, mergers and acquisitions, and business restructuring, etc.

As at 30 June 2020, SYC had 1 employee, who is licensed as responsible officer to conduct Type 6 (advising on corporate finance) regulated activities under the SFO. Regulation requires SYC to have a minimum number of 2 responsible officers in order to conduct business. Accordingly, another staff member joined the SYC after the reporting date and is now licensed as responsible officer.

Operation of Business Segments — Asset Management

The Group provides asset management services via two of the Group's subsidiaries, Sheng Yuan Asset Management Limited ("SYAM") and Sheng Yuan Sino Asset Management Limited ("SYSAM"). Both SYAM and SYSAM are licensed to conduct Type 4 and Type 9 (asset management) regulated activities under the SFO. Via these two subsidiaries, the Group provides investment recommendations to clients on securities trading or portfolio management as an investment advisor, as well as investment management services for funds or discretionary accounts. The Group would charge a fixed rate management fee calculated based on value of the net assets within the funds or discretionary accounts, as well as a performance fee calculated based on increase in value of the net assets within the funds or discretionary accounts.

As at 30 June 2020, the asset management segment had 5 employees, all employed by SYAM. Among the 5 employees of SYAM, 2 are licensed as responsible officers, and 3 as representatives. All responsible officers and representatives at SYAM and SYSAM are licensed to conduct Type 4 and Type 9 regulated activities under SFO.

MANAGEMENT DISCUSSION AND ANALYSIS

As at 30 June 2020, SYAM acted as the fund manager or investment adviser for 1 fund and 3 discretionary accounts (30 June 2019: 8 funds and 5 discretionary accounts). The total assets under management (the “AUM”) of SYAM increased by nearly 1,809% to approximately HK\$1.67 billion for the first half of 2020 (First half of 2019: approximately HK\$83.7 million).

Operation of Business Segments — Proprietary Trading

For proprietary trading business, Sheng Yuan Financial Services Group Limited (“SYFS”) mainly invests in the listed shares and private funds in Hong Kong market. During the six months ended 30 June 2020, the Group no longer reports loss on proprietary trading (six months ended 30 June 2019: HK\$4.7 million loss). This is because the Group has no additional investment in proprietary trading business, and the existing investments had been fully impaired in 2019.

Operation of Business Segments — Product Trading

As the Group focuses on the development of financial services business and the recovery of commodity market remains slow, the Group has continued to suspend its product trading business for the six months ended 30 June 2020. Since the suspension of product trading, the Group has maintained only the basic operation of the office with one staff to look out for appropriate business opportunity to resume the product trading business should such opportunity arise.

PROSPECTS AND FUTURE PLANS

Enterprises in mainland China have contributed tremendously to China’s economic growth over the past four decades of economic reform and opening up, nurturing high net worth individuals (“HNWI”) and even ultra-high net worth individuals (“UHNWI”) in a steady stream, and will continue to assume a significant role in the current round of economic transformation into a new economy driven by innovation and entrepreneurship. However, enterprises are still experiencing difficult times in getting sufficient funding in the onshore market. HNWI and UHNWI in mainland China are still facing limitations on global asset allocation. Meanwhile, Hong Kong, with its unique advantages of having mainland China as hinterland as well as of its extensive global network, is well recognized as the world’s premier international finance center. Compared to the mainland China market, Hong Kong market offers more certainty of timing, valuation, and reach to quality assets and investors around the world. The city has been the largest offshore funding center in bond financing and equity financing for enterprises from mainland China, as well as the top destination for Chinese HNWI and UHNWI when it comes to global asset allocation.

MANAGEMENT DISCUSSION AND ANALYSIS

Looking forward to the second half of 2020, the market conditions for Hong Kong remain uncertain and continue to face new challenges. Hong Kong will be exposed to increasing risks and difficulties, mainly from COVID-19 and possibly the relentless social unrest campaigns resulting in unfavourable investment sentiment in the local property market and other sectors, weighing on the Hong Kong and mainland China economies, and further deterring investors, changing monetary policies among major economies and leading to economic downturn in emerging markets. Since January 2020, the PRC and many other parts of the world have encountered an outbreak of COVID-19. As a result, certain measures were undertaken by the governments including but not limited to implementation of business and travel restrictions. The Group will keep continuous attention on the change of situation and make timely responses and adjustments in the future. So far, COVID-19 already resulted in unfavorable investment sentiment, weighing on the Hong Kong and mainland China economies, and further deterring investors, changing monetary policies among major economies and leading to economic downturn in emerging markets. Due to the abovementioned factors, the Directors expect that there are still existence of material uncertainties and adverse effects on the overall business of our Group with the weak economic conditions in Hong Kong and mainland China. To cope with the challenging environment, the Group will continue to evaluate development opportunities to strengthen our competitive advantage through deploying more resources for seizing this market potential and broadening its revenue so as to generate value for shareholders. The Directors are confident to achieve sustainable growth in the second half of 2020 and bring greater returns to our shareholders.

In such context, the Group has formulated plans to further expand its existing business operations. Licensed by the Securities and Futures Commission, the Group provides one-stop financial services to enterprises as well as HNWI and UHNWI from mainland China, including investment banking and asset management. Through our unique network, the Group will be focusing on providing investment banking services to regional financial institutions, investment platforms of both provincial and local governments, and regional leading real estate companies, to connect such enterprises with global funds via Hong Kong market, through either bond financing or equity financing. With potential access to HNWI and UHNWI through our partners, the Group will launch various funds in 2020 to address the demand of oversea investment opportunities from mainland China financial institutions, as well as to address needs of the global asset allocation for HNWI and UHNWI from mainland China.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group will step up its efforts in funds management and discretionary accounts management services, establish additional funds of various types, develop more financial products and expand its customer base to keep abreast of the market trends by focusing on high-valued customers and potential professional investor groups. In addition, the Group will continue to expand its financial consultancy businesses including corporate finance advisory services and mergers and acquisitions transactions. Further, management has also taken active steps to obtain additional financial resources to provide sufficient liquid capital to resume the Group's underwriting business and to provide additional capital for future expansion of its underwriting and other businesses.

The Group has also recently implemented measures to significantly reduce its operating expenses by (i) moving to smaller office from 26 August 2019 onwards, which resulted in more than 50% drop in monthly rental expenses and management fees; (ii) reducing the number of non-essential staff, which would result in lower staff expenses; and (iii) adopting strict cost control policies since February 2020, under which various administrative expenses have been substantially reduced.

It is expected that with the successful implementation of these business plans, the Company may be able to generate positive cash flows from operations and significantly improving its operating performance.

ACQUISITIONS AND DISPOSALS

There was no material acquisition or disposals of subsidiaries, consolidated affiliated entities or associated companies or joint ventures during the six months ended 30 June 2020.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2020, cash and bank balances in general accounts maintained by the Group were approximately HK\$27.8 million, representing a decrease of approximately 7% from approximately HK\$29.8 million as at 31 December 2019. Such cash and bank balances are mainly held in Hong Kong dollars, United States dollars and Renminbi. Balances in trust and segregated accounts as at 30 June 2020 were approximately HK\$14.9 million (31 December 2019: HK\$17.4 million).

Trade and other receivables and prepayments were approximately HK\$3.1 million as at 30 June 2020 (31 December 2019: HK\$4.1 million). Trade and other payables and accruals were approximately HK\$16.0 million as at 30 June 2020 (31 December 2019: HK\$18.7 million), as a result of the decrease in client trust accounts value.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group's current assets and current liabilities as at 30 June 2020 were approximately HK\$46.5 million (31 December 2019: HK\$52.0 million) and approximately HK\$126.6 million (31 December 2019: HK\$121.2 million) respectively. The borrowings as at 30 June 2020 were approximately HK\$102.5 million (31 December 2019: HK\$100.1 million). The majority of the Group's borrowings are denominated in Hong Kong dollars and at fixed interest rates. The gearing ratio of the Group, measured as total debts to total assets, was approximately 176% as at 30 June 2020 (31 December 2019: 153%). The increase was primarily due to the increase in borrowings of the Group and a reduction in the assets of the Group due to the reduction in value of client accounts and trade and other receivables and prepayments as mentioned above. As at 30 June 2020, the Group recorded net liabilities of approximately HK\$74.2 million (31 December 2019: net liabilities of approximately HK\$62.8 million primarily as a result of the continued operating losses recorded by the Group in recent year). During the six months ended 30 June 2020, the Group financed its operations with internally generated cash flow and funds from borrowings.

FOREIGN EXCHANGE EXPOSURE

The Group's transactions are mainly denominated in Hong Kong dollars, United States dollars ("USD"), and Renminbi ("RMB"). The Group has not implemented any foreign currencies hedging policies. However, the Group's management will closely monitor exchange rate movement and will take appropriate actions to reduce the risks.

CAPITAL STRUCTURE

The Directors monitor the Group's capital structure by reviewing cash flow requirements, taking into account of its future financial obligations and commitments. The capital structure of the Group comprises of issued share capital and reserves attributable to Shareholders. The Directors review the Group's capital structure regularly. There is no changes in capital structure during the period.

FUNDING AND TREASURY POLICIES

The Group adopts a conservative approach for cash management and investment on uncommitted funds. We place cash and cash equivalents (which are mostly held in Hong Kong dollars, United States dollars and Renminbi) in short term deposits with authorized institutions in Hong Kong.

CONTINGENT LIABILITIES

As at 30 June 2020, the Group did not have any material contingent liabilities.

MANAGEMENT DISCUSSION AND ANALYSIS

SIGNIFICANT SUBSEQUENT EVENTS

Subsequent to 30 June 2020, the Company had entered into supplementary agreement with a wholly-owned subsidiary of Yuanyin Holdings Limited to extend the repayment date of the existing borrowing with principal amount of approximately HK\$100 million as at 30 June 2020 to January 2022.

PLEDGE OF ASSETS

As at 30 June 2020, the Group did not have any pledged assets.

HUMAN RESOURCES

As at 30 June 2020, the Group employed 26 employees. The remuneration policy and package of the Group's employees are maintained at market level and are reviewed annually by management. In addition to basic salary, discretionary bonuses, mandatory pension fund and medical insurance scheme, share options may also be granted to eligible employees at the discretion of the Board and are subject to the performance of the individual employees as well as the Group.

The Group regards our staff as the most important asset and resource and provides regular training courses and a variety of development programs and has developed relevant training policies and procedures to enhance the effectiveness of such training programs.

During the Reporting Period, the Group has organized both internal and external training courses for employees. Such training courses covered topics including but not limited to industrial updates, compliance matters, occupational health and safety, etc.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

As at 30 June 2020, the interests or short positions of the Directors or the chief executives of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short positions which they were taken or deemed to have under such provisions of the SFO), or which would be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which would be required to be notified to the Company and the Stock Exchange pursuant to the Model Code are as follows:

Name of Director	Capacity	Number of shares held	Percentage of the issued share capital of the Company (Note 2)
Mr. Liu Yang (Note 1)	Interest of corporation controlled	1,025,580,000	26.85%

Notes:

1. Mr. Liu Yang owns 100% interest in Yuanyin ESOP Limited. Yuanyin ESOP Limited holds 37.04% voting rights in Yuanyin Holdings Limited. As such, Mr. Liu Yang is deemed to be interested in 1,025,580,000 shares which Yuanyin ESOP Limited is interested in pursuant to the SFO.
2. Percentage of shareholding as of 30 June 2020. As at 30 June 2020, the total number of issued shares of the Company was 3,819,705,413.

Other than the interests disclosed above, as at 30 June 2020, none of the Directors or chief executive had any interests in any shares, underlying shares or debentures 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.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30 June 2020, so far as the Directors are aware and as shown in the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO, 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\$0.05 EACH OF THE COMPANY

Name of Shareholder	Capacity	Number of shares held	Percentage of the issued share capital of the Company
Yuanyin ESOP Limited	Interest of corporation controlled <i>(Note (1))</i>	1,025,580,000	26.85%
Yuanyin Holdings Limited	Beneficial owner	1,011,000,000	26.47%
	Interest of corporation controlled <i>(Note (2))</i>	14,580,000	0.38%
Zhao Jian Yun	Beneficial owner	357,142,857	9.35%
Meng Hao Xiang	Interest of spouse	357,142,857	9.35%
Shao Yong Chao	Beneficial owner	300,000,000	7.85%
Cao Hai Xia	Interest of spouse	300,000,000	7.85%

Notes:

- (1) Yuanyin ESOP Limited holds 37.04% voting rights in Yuanyin Holdings Limited. As such, Yuanyin ESOP Limited is deemed to be interested in 1,025,580,000 shares which Yuanyin Holdings Limited is interested in.
- (2) Yuanyin Holdings Limited is deemed to be interested in 14,580,000 shares of the Company beneficially owned by Yuanyin International Limited, a wholly owned subsidiary of Yuanyin Holdings Limited.

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 (other than the Directors or chief executive of the Company) as having a notifiable interest or short position in the shares, underlying shares or convertible bonds of the Company as at 30 June 2020.

SHARE OPTIONS

The Company adopted a share option scheme on 24 September 2004 (the “2004 Scheme”). Pursuant to an ordinary resolution passed at the special general meeting of the Company held on 15 October 2014, the Company adopted a new share option scheme (the “2014 Scheme”), the purpose of which is to enable the Group to grant share options to the eligible participants as incentives or rewards for their contribution to the Group. No further option shall be granted under the 2004 Scheme, but the options granted under the 2004 Scheme prior to its expiry shall remain valid and exercisable in accordance with the terms of the respective grants. No share option has been granted under the 2014 Scheme and the movements of the share options granted under the 2004 Scheme during the six months ended 30 June 2020 were as follows:

Grantees	Date of grant	Exercise price (HK\$)	Vesting period	Exercisable period	Outstanding as at 1st January 2020	Granted during the period	Exercised during the period	Cancelled/ Lapsed during the period	Outstanding as at 30 June 2020
Directors									
Mr. Qiu Bin (Note)	7/9/2017	0.2400	Nil	7/9/2017 — 7/9/2020	10,000,000	—	—	(10,000,000)	—
Other grantees	7/9/2017	0.2400	Nil	7/9/2017 — 7/9/2020	50,000,000	—	—	—	50,000,000
					60,000,000			(10,000,000)	50,000,000
Total number of shares available for issue at period end date									50,000,000
Total number of shares available for issue as a percentage to issued shares									1.31%

Note: Mr. Qiu Bin resigned as the director of the Company on 5 February 2020.

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

During the six months ended 30 June 2020, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

AUDIT COMMITTEE

The audit committee of the Company currently comprises Ms. Huang Qin (Chairman), Mr. Zhang Jinfan (both being independent non-executive Directors), and Mr. Huang Shuanggang (a non-executive Director), with Ms. Huang possessing 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 2020 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, being Mr. Zhang Jinfan (Chairman), Ms. Wen Han Qiuzi, and Ms. Huang Qin.

NOMINATION COMMITTEE

The nomination committee of the Company is responsible, amongst other things, to review the structure, size and composition of the Board and make recommendations for changes as necessary, to identify individuals suitably qualified to become board members and select or make recommendations to the Board on the selection of, individuals nominated for directorships, to assess the independence of independent non-executive Directors, and to make recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for Directors in particular the Chairman and the Chief Executive Officer. It comprises one executive director and two independent non-executive Directors, being Mr. Liu Yang (Chairman), Mr. Zhang Jinfan and Ms. Wen Han Qiuzi.

CORPORATE GOVERNANCE

The Company is committed to maintain high standard of corporate governance standards and procedures to safeguard the interests of all and to enhance accountability and transparency. The Company has complied with all applicable code provision as set out in the Corporate Governance Code and Corporate Governance Report (the “Code”) contained in Appendix 14 of the Listing Rules during the six months ended 30 June 2020 except the following deviations:

The Code provision A.2.1 stipulates that the roles of the Chairman and the Chief Executive Officer (“CEO”) should be separated and should not be performed by the same individual. Mr. Liu Yang was appointed as an executive Director, CEO of the Group and the Chairman of the Board with effect from 31 January 2020. All major decisions are made in consultation with the Board members and the senior management of the Company. There are three independent non-executive Directors in the Board. The Board considers that there is sufficient balance of power and safeguards in place, and the current arrangement would not impair the balance of power of the Company.

The Board will continue to review and monitor its corporate governance practices to assess whether separation of the role of chairman of the Board and CEO of the Group is necessary.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules as a code of conduct of the Company for directors’ securities transactions. Having made specific enquiry of all Directors, the Directors had 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 2020.

No incident of non-compliance of the Model Code by relevant employees has been noted by the Company during the six months ended 30 June 2020.

BOARD OF DIRECTORS

As at the date of this interim report, the Board consists of Mr. Liu Yang, Mr. Zhou Quan and Mr. Zhao Yun (all being executive Directors), Mr. Huang Shuanggang (being a non-executive Director), Mr. Zhang Jinfan, Ms. Wen Han Qiuzi and Ms. Huang Qin (all being independent non-executive Directors).

Saved as disclosed in “Corporate Information” and herein in this interim report, there are no information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

By order of the Board
Sheng Yuan Holdings Limited
Liu Yang
Chairman of the Board

Hong Kong, 28 August 2020