SAS

Interim Report 2013

S.A.S. GROUP

S.A.S. Dragon Holdings Limited

(Stock Code: 1184)

HAPPY 開心企業 COMPANY 2013

企業社會責任大使 鏡報 主辦

商界展關懷 caringcompany 2009-13
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香港社會服務聯會頒發

CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Yim Yuk Lun, Stanley *JP*
(Chairman and Managing Director)
Mr. Yim Tsz Kit, Jacky
Mr. Lau Ping Cheung
Mr. Lock Shui Cheung
Mr. Wong Sui Chuen

Independent Non-Executive Directors

Mr. Cheung Chi Kwan
Mr. Liu Chun Ning, Wilfred
Dr. Lui Ming Wah *SBS JP*
Mr. Wong Tak Yuen, Adrian

AUDIT COMMITTEE

Mr. Wong Tak Yuen, Adrian *(Chairman)*
Mr. Cheung Chi Kwan
Dr. Lui Ming Wah *SBS JP*

REMUNERATION COMMITTEE

Mr. Wong Tak Yuen, Adrian *(Chairman)*
Dr. Lui Ming Wah *SBS JP*
Mr. Wong Sui Chuen

NOMINATION COMMITTEE

Mr. Wong Tak Yuen, Adrian *(Chairman)*
Mr. Cheung Chi Kwan
Mr. Wong Sui Chuen

COMPANY SECRETARY

Mr. Wong Wai Tai

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

PRINCIPAL OFFICE

6th Floor, Tower B
Hunghom Commercial Centre
37 Ma Tau Wai Road
Hong Kong

SHARE REGISTRARS AND TRANSFER OFFICE

Tricor Secretaries Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

Hang Seng Bank Limited
The Hongkong and Shanghai Banking Corporation Limited
Standard Chartered Bank (Hong Kong) Limited

AUDITORS

Deloitte Touche Tohmatsu

WEBSITE

www.sasdragon.com.hk

STOCK CODE

The Stock Exchange of Hong Kong Limited: 1184

FINANCIAL HIGHLIGHTS

	For the six months ended 30 June		
	2013	2012	Change
Revenue (HK$ million)	**4,816.1**	2,718.5	+77%
Profit attributable to owners of the Company (HK$ million)	**70.7**	30.2	+134%
Basic earnings per share (HK cents)	**26.72**	11.51	+132%
Interim dividend per share (HK cents)	**6.5**	3.0	+117%

The board of directors (the "Board") of S.A.S. Dragon Holdings Limited (the "Company") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2013, together with comparative figures for the previous period, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2013

		For the six months ended 30 June	
		2013	2012
		(Unaudited)	(Unaudited)
	Notes	**HK$'000**	HK$'000
			(Restated)
Revenue	*2*	**4,816,084**	2,718,468
Cost of sales		**(4,610,127)**	(2,593,142)
Gross profit		**205,957**	125,326
Other income		**2,555**	5,590
Other gains and losses		**6,515**	2,811
Distribution and selling expenses		**(25,853)**	(22,950)
Administrative expenses		**(75,004)**	(59,805)
Finance costs		**(8,454)**	(6,930)
Share of results of associates		**(152)**	(64)
Share of results of joint ventures		**3,506**	(1,088)
Profit before tax		**109,070**	42,890
Income tax expense	*3*	**(15,156)**	(4,818)
Profit for the period	*4*	**93,914**	38,072
Other comprehensive income:			
Items that may be subsequently reclassified to profit or loss:			
Exchange differences arising on translation of foreign operation		**(232)**	266
Fair value loss on available-for-sale investment		**(1,014)**	(10,632)
Total comprehensive income for the period		**92,668**	27,706

	Notes	For the six months ended 30 June 2013 (Unaudited) HK$'000	2012 (Unaudited) HK$'000 (Restated)
Profit for the period attributable to:			
Owners of the Company		**70,660**	30,169
Non-controlling interests		**23,254**	7,903
		93,914	38,072
Total comprehensive income attributable to:			
Owners of the Company		**69,414**	19,673
Non-controlling interests		**23,254**	8,033
		92,668	27,706
Earnings per share	6		
Basic		**HK26.72 cents**	HK11.51 cents
Diluted		**HK26.65 cents**	HK11.51 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2013

	Notes	30 June 2013 (Unaudited) HK$'000	31 December 2012 (Restated) HK$'000
Non-Current Assets			
Investment properties		177,300	177,300
Property, plant and equipment		190,256	184,648
Prepaid lease payments		9,015	9,112
Goodwill		20,392	20,392
Interests in associates		265	417
Investments in joint ventures		17,328	13,820
Available-for-sale investments		33,401	34,414
Club memberships		3,278	3,278
Deposit paid for acquisition of property, plant and equipment		9,600	9,600
Deferred tax assets		3,683	3,399
		464,518	456,380
Current Assets			
Inventories		748,099	616,711
Trade and other receivables	7	1,306,453	801,144
Bills receivable	7	18,599	9,745
Prepaid lease payments		194	194
Financial assets at fair value through profit or loss		56,966	54,785
Taxation recoverable		3,724	2,732
Pledged bank deposits		5,980	3,961
Bank balances and cash		565,253	407,600
		2,705,268	1,896,872
Current Liabilities			
Trade and other payables	8	611,247	501,444
Bills payable	8	422,580	242,605
Derivative financial instruments		6,549	7,909
Tax liabilities		18,447	6,666
Bank borrowings – due within one year		1,338,820	877,900
		2,397,643	1,636,524
Net Current Assets		307,625	260,348
Total Assets less Current Liabilities		772,143	716,728

	Notes	30 June 2013 (Unaudited) HK$'000	31 December 2012 (Restated) HK$'000
Capital and Reserves			
Share capital		**26,494**	26,214
Share premium and reserves		**649,093**	606,712
Equity attributable to owners of the Company		**675,587**	632,926
Non-controlling interests		**96,556**	83,802
Total Equity		**772,143**	716,728

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2013

	Attributable to owners of the Company												
	Share capital HK$'000	Share premium HK$'000	Capital redemption reserve HK$'000	Capital reserve HK$'000	Contributed surplus HK$'000	Property revaluation reserve HK$'000	Investment revaluation reserve HK$'000	Translation reserve HK$'000	Warrants reserve HK$'000	Retained profit HK$'000	Total HK$'000	Attributable to Non-controlling interests HK$'000	Total HK$'000
At 1 January 2013	26,214	33,510	1,109	11,145	13,519	37,347	1,249	4,699	6,504	497,630	632,926	83,802	716,728
Profit for the period	–	–	–	–	–	–	–	–	–	70,660	70,660	23,254	93,914
Exchange Differences arising on translation of foreign operations	–	–	–	–	–	–	–	(232)	–	–	(232)	–	(232)
Fair value loss on available-for-sale investments	–	–	–	–	–	–	(1,014)	–	–	–	(1,014)	–	(1,014)
Total comprehensive income for the period	–	–	–	–	–	–	(1,014)	(232)	–	70,660	69,414	23,254	92,668
Exercise of warrants	280	4,760	–	–	–	–	–	–	–	–	5,040	–	5,040
Release of warrants reserve on exercise of warrants	–	364	–	–	–	–	–	–	(364)	–	–	–	–
Dividend paid to non-controlling shareholder	–	–	–	–	–	–	–	–	–	–	–	(10,500)	(10,500)
Dividend paid *(note 5)*	–	–	–	–	–	–	–	–	–	(31,793)	(31,793)	–	(31,793)
At 30 June 2013 (unaudited)	26,494	38,634	1,109	11,145	13,519	37,347	235	4,467	6,140	536,497	675,587	96,556	772,143
At 1 January 2012	26,214	33,510	1,109	11,145	13,519	37,347	(1,674)	3,568	–	440,856	565,594	61,771	627,365
Profit for the period	–	–	–	–	–	–	–	–	–	30,169	30,169	7,903	38,072
Exchange Differences arising on translation of foreign operations	–	–	–	–	–	–	–	136	–	–	136	130	266
Fair value loss on available-for-sale investment	–	–	–	–	–	–	(10,632)	–	–	–	(10,632)	–	(10,632)
Total comprehensive income for the period	–	–	–	–	–	–	(10,632)	136	–	30,169	19,673	8,033	27,706
Disposal of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	(995)	(995)
Dividend paid to non-controlling shareholder	–	–	–	–	–	–	–	–	–	–	–	(1,500)	(1,500)
Dividend paid *(note 5)*	–	–	–	–	–	–	–	–	–	(26,214)	(26,214)	–	(26,214)
At 30 June 2012 (unaudited)	26,214	33,510	1,109	11,145	13,519	37,347	(12,306)	3,704	–	444,811	559,053	67,309	626,362

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2013

	For the six months ended 30 June	
	2013	2012
	(Unaudited)	(Restated)
	HK$'000	HK$'000
Net cash (used in) operating activities	**(243,071)**	(122,703)
Net cash (used in) investing activities	**(14,488)**	(59,997)
Net cash from (used in) financing activities	**415,213**	(58,101)
Net increase (decrease) in cash and cash equivalents	**157,654**	(240,801)
Cash and cash equivalents at beginning of the period	**407,599**	621,422
Cash and cash equivalents at end of the period, represented by bank balances and cash	**565,253**	380,621

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of preparation and principal accounting policies

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

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at fair values, as appropriate.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2013 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2012.

In the current interim period, the Group has applied, for the first time, the following new or revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are relevant for the preparation of the Group's condensed consolidated financial statements:

HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interest in Other Entities: Transition Guidance
HKFRS 13	Fair Value Measurement
HKAS 19 (as revised in 2011)	Employee Benefits
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income
Amendments to HKFRSs	Annual Improvements to HKFRSs 2009-2011 Cycle
HK(IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine

New and revised Standards on consolidation, joint arrangements, associates and disclosures

In the current interim period, the Group has applied for the first time HKFRS 10, HKFRS 11, HKFRS 12 and HKAS 28 (as revised in 2011) together with the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 regarding the transitional guidance. HKAS 27 (as revised in 2011) is not applicable to these condensed consolidated financial statements as it deals only with separate financial statements.

The impact of the application of these standards is set out below.

Impact of the application of HKFRS 11

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures*, and the guidance contained in a related interpretation, HK(SIC)-Int 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*, has been incorporated in HKAS 28 (as revised in 2011). HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified and accounted for. Under HKFRS 11, there are only two types of joint arrangements – joint operations and joint ventures. The classification of joint arrangements under HKFRS 11 is determined based on the rights and obligations of parties to the joint arrangements by considering the structure, the legal form of the arrangements, the contractual terms agreed by the parties to the arrangement, and, when relevant, other facts and circumstances. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint venturers) have rights to the net assets of the arrangement. Previously, HKAS 31 had three types of joint arrangements – jointly controlled entities, jointly controlled operations and jointly controlled assets. The classification of joint arrangements under HKAS 31 was primarily determined based on the legal form of the arrangement (e.g. a joint arrangement that was established through a separate entity was classified as a jointly controlled entity).

The initial and subsequent accounting of joint ventures and joint operations are different. Investments in joint ventures are accounted for using the equity method (proportionate consolidation is no longer allowed). Investments in joint operations are accounted for such that each joint operator recognises its assets (including its share of any assets jointly held), its liabilities (including its share of any liabilities incurred jointly), its revenue (including its share of revenue from the sale of the output by the joint operation) and its expenses (including its share of any expenses incurred jointly). Each joint operator accounts for the assets and liabilities, as well as revenues and expenses, relating to its interest in the joint operation in accordance with the applicable standards.

The directors of the Company reviewed and assessed the classification of the Group's investments in joint arrangements in accordance with the requirements of HKFRS 11. The directors concluded that the Group's investments in Kitronix Limited and SPT Technology Limited, which were classified as jointly controlled entities under HKAS 31 and were accounted for using the proportionate consolidation method, should be classified as joint ventures under HKFRS 11 and accounted for using the equity method. The change in accounting of the Group's investments in Kitronix Limited and SPT Technology Limited has been applied in accordance with the relevant transitional provisions set out in HKFRS 11. The initial investments as at 1 January 2012 for the purposes of applying the equity method are measured as the aggregate of the carrying amounts of the assets and liabilities that the Group had previously proportionately consolidated (see the tables below for details). Also, the directors performed an impairment assessment on the initial investments as at 1 January 2012 and concluded that no impairment loss is required. Comparative amounts for 2012 have been restated to reflect the change in accounting for the Group's investments in Kitronix Limited and SPT Technology Limited.

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 introduce new terminology for statement of comprehensive income and income statement. Under the amendments to HKAS 1, a statement of comprehensive income is renamed as a statement of profit or loss and other comprehensive income. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the existing option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes.

Except as described above, the application of the other new or revised HKFRSs in the current interim period has had no material effect on the amounts reported and/or disclosures set out in these condensed consolidated financial statements.

Summary of the effect of the above changes in accounting policy

The effect of the changes in the Group's accounting policy described above on the results for the current and preceding interim periods by line items presented in the condensed consolidated statement of profit or loss and other comprehensive income is as follows:

	For the six months ended 30 June 2013 (Unaudited) HK$'000	2012 (Unaudited) HK$'000
Decrease in revenue	**(128,751)**	(95,481)
Decrease in cost of sales	**118,683**	90,015
Decrease in other income	**(3)**	(14)
Increase in other gains and losses	**52**	57
Decrease in distribution and selling expenses	**1,229**	758
Decrease in administrative expenses	**4,514**	5,357
Decrease in finance costs	**423**	396
Increase (decrease) in share of results of joint ventures	**3,506**	(1,088)
Decrease in income tax expense	**347**	–
Net effect on profit for the interim period	**–**	–

The effect of the change in Group's accounting policy described above on the financial positions of the Group as at the end of the immediately preceding financial year, i.e. 31 December 2012, is as follows:

	As at 31 December 2012 (Originally stated) HK$'000	Adjustments HK$'000	As at 31 December 2012 (Restated) HK$'000
Property, plant & equipment	189,662	(5,014)	184,648
Investments in joint ventures	–	13,820	13,820
Inventories	659,446	(42,735)	616,711
Trade and other receivables	828,052	(26,908)	801,144
Bank balances and cash	433,195	(25,595)	407,600
Trade and other payables	(522,449)	21,005	(501,444)
Taxation liabilities	(7,077)	411	(6,666)
Bank borrowings – due within one year	(942,916)	65,016	(877,900)
Total effect on net assets	637,913	–	637,913

There is no effect on the basic and dilutive earnings per share for the period ended 30 June 2013 and 30 June 2012 upon the changes in the accounting policy of the Group.

2. Revenue and segment information

Revenue from major business product and services

The following is an analysis of the Group's revenue from its major business products and services:

	For the six months ended 30 June	
	2013	2012
	HK$'000	HK$'000
		(Restated)
Distribution of electronic components and semiconductor products	**4,797,859**	2,699,098
Distribution of sport products	**15,646**	16,278
Office building rental	**2,579**	3,092
	4,816,084	2,718,468

Geographical information

The Group's operations are located in different places of domicile, including mainland PRC, Hong Kong and Taiwan.

The following is an analysis of the Group's revenue by geographical locations of customers:

	For the six months ended 30 June	
	2013	2012
	HK$'000	HK$'000
		(Restated)
Hong Kong	**3,252,658**	1,312,776
Mainland PRC	**1,329,989**	1,170,382
Taiwan	**143,663**	124,121
Mexico	**34,875**	49,501
India	**13,477**	8,753
Singapore	**7,792**	27,953
Others	**33,630**	24,982
	4,816,084	2,718,468

3. **Income tax expense**

	For the six months ended 30 June	
	2013	2012
	HK$'000	HK$'000
		(Restated)
Hong Kong Profits Tax	**13,880**	5,037
Taiwan Corporate Income Tax	**1,560**	63
Deferred tax	**(284)**	(282)
	15,156	4,818

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both periods.

Corporate Income Tax in Taiwan is charged at 17% for both periods.

4. **Profit for the period**

	For the six months ended 30 June	
	2013	2012
	HK$'000	HK$'000
		(Restated)
Profit for the period has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment and amortization of prepaid lease payments	**8,399**	7,736
Interest income	**(489)**	(1,036)
Dividend income	**(403)**	(4,210)

5. Dividend paid

	For the six months ended 30 June	
	2013	2012
	HK$'000	HK$'000
Final dividend in respect of the previous financial year, paid during the period, of HK12 cents per share (2012: HK10 cents)	**31,793**	26,214

6. Earnings per share

	For the six months ended 30 June	
	2013	2012
	HK$'000	HK$'000
Earnings		
Profit attributable to owners of the Company used in basic and diluted earnings per share calculations	**70,660**	30,169

	Number of shares	
	2013	2012
Shares		
Weighted average number of ordinary shares in issue during the period used in basic earnings per share calculation	**264,414,753**	262,140,720
Effect of dilution – weighted average number of ordinary shares: warrants	**704,661**	–
	265,119,414	262,140,720

7. Trade and Other Receivables and Bills Receivable

An aged analysis of trade and bills receivables by due dates (net of allowance for doubtful debts) is as follows:

	30 June 2013 HK$'000	31 December 2012 HK$'000 (Restated)
Current	**848,176**	541,786
Within 30 days	**341,339**	174,907
More than 30 days and within 60 days	**33,987**	19,113
More than 60 days and within 90 days	**4,528**	2,790
More than 90 days	**7,787**	13,964
Trade receivables and bills receivable	**1,235,817**	752,560
Other receivables	**89,235**	58,329
	1,325,052	810,889

The Group allows a credit period ranged from 30 days to 120 days to its trade customers.

8. Trade and Other Payables and Bills Payable

An aged analysis of trade and bills payables by due date is as follows:

	30 June 2013 HK$'000	31 December 2012 HK$'000 (Restated)
Current	**870,105**	645,501
Within 30 days	**71,070**	35,555
More than 30 days and within 60 days	**20,962**	6,490
More than 60 days and within 90 days	**8,927**	24
More than 90 days	**2,826**	3,097
Trade payables and bills payable	**973,890**	690,667
Other payables	**59,937**	53,382
	1,033,827	744,049

9. Connected and Related Party Transactions and Balances

(I) Connected parties

During the period, the Group had significant transactions and balances with related parties, some of which are also deemed to be connected parties pursuant to the Listing Rules. The significant transactions during the period and balances at the balance sheet date with a substantial shareholder are as follows:

(a) Transactions

		For the six months ended 30 June	
Name of party	**Nature of transactions**	**2013**	2012
		HK$'000	HK$'000
Hon Hai Precision Industry Co Ltd ("Hon Hai") *(note)* and its subsidiaries	Purchases of electronic products	**279,125**	237,914
	Sales of electronic products	**133,618**	106,372

(b) Balances

		30 June	31 December
Name of party	**Nature of transactions**	**2013**	2012
		HK$'000	HK$'000
Hon Hai and its subsidiaries	Balance		
	– trade receivables	**76,813**	72,575
	– trade payables	**137,082**	183,517

Note: Hon Hai is a substantial shareholder of the Company, who held 17.36% of the issued share capital of the Company as at 30 June 2013.

(II) Related parties, other than connected parties

The significant transactions with related parties, other than connected parties, during the period, and significant balances with them at the balance sheet date, are as follows:

(a) Transactions

		For the six months ended 30 June	
Name of party	**Nature of transactions**	**2013**	2012
		HK$'000	HK$'000
Joint venture:			
SPT Technology Ltd	Purchases of electronic products	**45,394**	70,187
	Sales of electronic products	**146**	349

(b) Balances

		30 June	31 December
Name of party	**Nature of transactions**	**2013**	2012
		HK$'000	HK$'000
Joint venture:			
SPT Technology Ltd	Balance		
	– trade receivables	**14**	–
	– trade payables	**9,441**	10,005

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK6.5 cents (2012: HK3.0 cent) per share payable to the shareholders of the Company whose names appear on the Register of Members of the Company on 13 September 2013. The dividend warrants are expected to despatch to shareholders on or about 23 September 2013.

CLOSURE OF REGISTERS OF MEMBERS

The registers of members of the Company will be closed from 11 September 2013 to 13 September 2013, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all share transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Secretaries Limited of 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong, for registration not later than 4:30 pm on 10 September 2013.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Distribution of Electronic Components and Semiconductor Products

Electronic components distribution is the Group's core business. For the six months ended 30 June 2013, despite the deceleration of economic growth in China, electronic components distribution achieved record sales revenue of HK$4.8 billion, up 78% from HK$2.7 billion recorded in corresponding period of last year. Such growth was driven by the growing demand of smartphones, tablets, telecommunication and networking products as well as the LED lighting products. Also, our newly incorporated subsidiary in Taiwan has made positive contributions to the Group during the period under review.

Mobile Phone Products

China smartphone vendors have successfully expanded their market share in the global smartphone market by leveraging their cost advantages, improved brand awareness and strong relationship with both domestic and global operators. We recorded substantial revenue growth on smartphone segment by working together with more leading China branded vendors, such as Yulong, TCL, Xiaomi, Tianyu, Tinno, BBK, Oppo and Meizu etc, during the period under review.

Also, thanks to the technical innovation in mobile operating system, user interface and cloud-based services, demand of smartphone hardware update further bolstered our revenue by delivering more dual-core and quad-core baseband processors, larger and high resolution panels, larger memory storage, higher resolution camera, more sensible touch panel as well as better audio solutions to those handset manufacturers, design house and module factories in the Greater China region.

Consumer Electronic Products

Growing demand of tablets, electronic learning products, smart TV boxes, sport cameras as well as environmental friendly electronic appliances have continued to boost the Group's revenue during the period under review.

Telecommunication and Networking Products

Telecommunication and Networking becomes the core of computing today. With the rapid changes in technology and increasing demand, the requirement of additional bandwidth, proliferation of smart devices, cloud computing and multimedia contents have put additional challenges on today's networks. The Group continued to generate satisfactory contributions from providing competitive solutions of 4G LTE networks, smart home, data centre, and 3G routers to those telecommunication and networking equipment manufacturers and system integrators during the period under review.

LED Lighting Products

As LED price declines bring forward the payback time over the initial cost of investment, growth of demand of LED lighting for the commercial sector has been accelerated. The Group completed more commercial indoor and outdoor LED lighting installation projects with smart control systems for property developers, hotels, banks, shopping malls, retail shops, offices and factories in China, Hong Kong, Macau and Singapore under the LIM branding.

By leveraging the Group's engineering expertise to deliver one-stop LED lighting solutions, the Group achieved sales revenue under the LED lighting business of approximate HK$178 million during the period under review, representing a growth of 41% compared with HK$126 million recorded in corresponding period of last year.

Properties investment

As of 30 June 2013, the Group continues to carry the 6 units of investment properties (31 December 2012: 6 units), all of which are commercial units located in Hong Kong. The aggregate carrying value of investment properties amounted to HK$177 million (31 December 2012: HK$177 million).

The above investment properties altogether generated rental income of HK$2.6 million (2012: HK$3.1 million) with an annualized return of 2.9% (2012: 4.5%).

OUTLOOK

Looking ahead, we are still cautiously optimistic about our business outlook. We expect smartphone shipments will continue to grow in the second half of 2013 and we are well positioned to benefit from the potential ramping demand for 4G LTE-compatible smartphones and 4G LTE related infrastructure.

We have confidence that the Group will perform competitively in the Greater China region by virtue of our economies of scales, solid customer relations supported by our strong localized sales force and field application engineers, competent inventory management and other value added services. Meanwhile, the Group will continue to adopt measures to reduce expenditure, control costs in a proactive manner with the aim of strengthening the operation efficiency of the Group.

Being the leading electronic component distributor in Hong Kong, we will continue to pursue a healthy and sustainable business growth and are confident to generate more returns to our shareholders.

FINANCIAL REVIEW

For the six months ended 30 June 2013, the Group continued to adhere to its strategy of focusing on high growth potential products in the Greater China region. The Group achieved record turnover of approximately HK$4,816,084,000, up 77% from HK$2,718,468,000 achieved in corresponding period of last year. Gross profit was HK$205,957,000, up 64% from HK$125,326,000 achieved in corresponding period of last year. Gross profit margin maintained at 4.3% compared with 4.3% recorded in full year of 2012 while it was 4.6% for the six months ended 30 June 2012. Meanwhile, the Group has proactively implemented certain cost control measures to improve its cost efficiency such that its distribution and selling, administrative expenses and finance costs collectively grew only by 22% when compared with corresponding period of last year. As a result, the net profit for the period was HK$70,660,000, increased 134% compared with HK$30,169,000 recorded in corresponding period of last year. Basic earnings per share was HK26.72 cents (2012: HK11.51 cents).

Liquidity and Financial Resources

As of 30 June 2013, the Group's current ratio was 113% (31 December 2012: 116%). The Group's net gearing ratio was 92% (31 December 2012: 57%), defined as the Group's net borrowings (calculated as total bank borrowings minus total cash and bank balances minus financial assets at fair value through profit or loss) of approximately HK$710,621,000 (31 December 2012: HK$411,554,000) divided by total equity of HK$772,143,000 (31 December 2012: HK$716,728,000). The increase of net gearing ratio was mainly due to the increase of bank borrowings in relation to the increase of working capital required to support the growth of the distribution business.

The Group recorded debtors turnover of approximately 46 days for the period under review (2012: 42 days) based on the amount of trade and bills receivable as at 30 June 2013 divided by sales for the same period and multiplied by 181 days (2012: 182 days).

The Group recorded inventory turnover and average payable period of approximately 29 days and 38 days respectively for the period under review (2012: approximately 37 days and 46 days respectively) based on the amount of inventory and trade and bills payables as at 30 June 2013 divided by cost of sales for the same period and multiplied by 181 days (2012: 182 days).

The Group recorded net operating cash outflow of HK$243,071,000 and increase in net bank borrowings of HK$460,920,000 for the period under review, compared with net operating cash outflow of HK$122,703,000 and net repayment of bank borrowings of HK$23,457,000 for the same period in 2012.

Foreign Exchange Risk Management

The Group has foreign currency sales and purchases, bank deposits and borrowings primary in United States dollars and Renminbi which expose the Group to foreign currency risk.

The Group entered into foreign currency forward contracts to hedge the currency risk related to its short-term bank loans denominated in foreign currencies.

Employee and Remuneration Policy

At 30 June 2013, the Group employed approximately 500 employees in the Greater China region. The Group ensures that their employees are offered competitive remuneration packages. Other staff benefits include share option scheme, provident fund schemes and medical insurance. Also, discretionary bonus was granted to eligible employees based on the Group's financial results and individual performance.

Pledge of Assets

At 30 June 2013, certain of the Group's assets (including investment properties, leasehold land and buildings, bank deposits, factored trade receivables and financial assets at fair value through profit or loss) with the carrying value of totaling approximately HK$818 million were pledged to secure general banking facilities granted to the Group.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 30 June 2013, the interests of the directors of the Company in the shares and underlying shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to section 352 of the Securities and Future Ordinance ("SFO"), or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Long positions

(a) *Ordinary shares of HK$0.10 each of the Company*

Name of directors	Capacity	Number of issued ordinary shares held	Percentage of issued share capital of the Company
Yim Yuk Lun, Stanley *JP*	Beneficial owner	13,990,000	5.28%
	Held by controlled corporation *(Note)*	66,571,400	25.13%
		80,561,400	30.41%
Lock Shui Cheung	Beneficial owner	1,000,000	0.38%
Wong Sui Chuen	Beneficial owner	912,000	0.34%
Lau Ping Cheung	Beneficial owner	300,000	0.11%

(b) The underlying shares – unlisted warrants of the Company

Name of directors	Capacity	Number of warrants held	Number of underlying shares
Yim Yuk Lun, Stanley *JP*	Held by controlled corporation *(Note)*	47,200,000	47,200,000

Note: These shares and warrants are held by Unimicro Limited, a company incorporated in the British Virgin Islands which is beneficially owned by Mr. Yim Yuk Lun, Stanley *JP*.

Save as disclosed above and other than certain nominee shares in subsidiaries held by certain directors in trust for the Company, none of the directors or chief executives or their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations at 30 June 2013.

SUBSTANTIAL SHAREHOLDERS

At 30 June 2013, the register of substantial shareholders maintained by the Company pursuant to section 336 of the SFO shows that other than the interests disclosed above in respect of certain directors, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

LONG POSITIONS
Ordinary shares of HK$0.10 each of the Company

Name of shareholders	Capacity	Number of issued ordinary shares held	Percentage of issued share capital of the Company
Hon Hai	Held by controlled corporation *(Note)*	46,000,000	17.36%
Foxconn Holding Limited (“Foxconn”)	Beneficial owner	46,000,000	17.36%

Name of shareholders	Capacity	Number of issued ordinary shares held	Percentage of issued share capital of the Company
Chung Shun Ming	Beneficial owner	27,343,400	10.32%

Note: Hon Hai owns 100% interest in Foxconn and is accordingly deemed to be interested in those ordinary shares of the Company beneficially owned by Foxconn.

Save as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company at 30 June 2013.

UPDATE ON DIRECTOR'S INFORMATION

Pursuant to rule 13.51B(1) of the Listing Rules, the change of directors' information of the Company since the date of the 2012 Annual Report is as follows:

1. Dr. Chang Chu Cheng, an non-executive director of the Company, who retired after the conclusion of the annual general meeting of the Company held on 14 May 2013.

2. Dr. Lui Ming Wah *SBS JP*, an independent non-executive director of the Company, has been appointed a member of the audit committee of the Company in replacement of Dr. Chang Chu Cheng with effect from 14 May 2013.

3. Mr. Yim Tsz Kit, Jacky has been appointed as executive director of the Company with effect from 16 May 2013.

SHARE OPTION SCHEME

The Company has not granted or issued any share option up to 30 June 2013.

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

During the period under review, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE

The Group has complied with the applicable code provisions in the Corporate Governance Code as contained in Appendix 14 to the Listing Rules (the "Code") throughout the six months ended 30 June 2013, except for the following deviations:

Under the code provision A.1.8 of the Code, provides that an issuer should arrange appropriate insurance cover in respect of legal action against its directors. With regular and timely communications among the Directors and the management of the Group, the management of the Group believes that all potential claims and legal actions against the Directors can be handled effectively, and the possibility of actual litigation against the Directors is very low. The Company will consider to make such an arrangement as and when it thinks necessary.

Under the code provision A.2.1 of the Code, the roles of chairman and chief executive officer should be separate and should not performed by the same individual. Having considered the current business operation and the size of the Group, the Board is of the view that Mr. Yim Yuk Lun, Stanley *JP* acting as both the Chairman and the Managing Director of the Group is acceptable and in the best interest of the Group.

Under the code provision A.4.1 of the Code, non-executive directors should be appointed for a specific term and subject to re-election. The non-executive directors have not been appointed for a specific term. However, according to the Bye-laws of the Company, one-third of the directors for the time being shall retire from office by rotation at each annual general meeting. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are similar to those in the Code.

Under the code provision A.6.7 of the Code, Dr. Chang Chu Cheng, an non-executive director of the Company, and Mr. Liu Chun Ning, Wilfred and Dr. Lui Ming Wah *SBS JP*, the independent non-executive directors of the Company were unable to attend the annual general meeting of the Company held on 14 May 2013 due to their unexpected business engagement.

AUDIT COMMITTEE

The Audit Committee of the Company has reviewed with management the accounting principles and policies adopted by the Group and the unaudited interim financial statements for the six months ended 30 June 2013.

MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies contained in Appendix 10 of the Listing Rules (the "Model Code") as the code of conduct regarding directors' securities transactions.

Having made specific enquiry of all Directors, the Company confirmed that all Directors have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2013.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to extend my sincere gratitude to all shareholders, customers, suppliers and business partners for their valuable and continuous support, and to all our colleagues for their efforts, hard work and dedication.

On behalf of the Board
Yim Yuk Lun, Stanley *JP*
Chairman and Managing Director

Hong Kong, 27 August 2013