



# S.A.S. Dragon Holdings Limited

(Stock Code: 1184)



*Interim Report*  
**2014**



鏡報 10



## CORPORATE INFORMATION

### DIRECTORS

#### Executive Directors

Mr. Yim Yuk Lun, Stanley *JP*  
(*Chairman and Managing Director*)

Mr. Wong Sui Chuen

Mr. Lock Shui Cheung

Mr. Lau Ping Cheung

Mr. Yim Tsz Kit, Jacky

#### Independent Non-Executive Directors

Dr. Lui Ming Wah *SBS JP*

Mr. Wong Tak Yuen, Adrian

Mr. Liu Chun Ning, Wilfred

Mr. Cheung Chi Kwan

### AUDIT COMMITTEE

Mr. Wong Tak Yuen, Adrian (*Chairman*)

Dr. Lui Ming Wah *SBS JP*

Mr. Cheung Chi Kwan

### 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. Wong Sui Chuen

Mr. Cheung Chi Kwan

### 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  
Level 22, Hopewell Centre  
183 Queen's Road East  
Hong Kong

### PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited  
DBS Bank (Hong Kong) Limited  
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](http://www.sasdragon.com.hk)

### STOCK CODE

The Stock Exchange of Hong Kong Limited:  
1184

## FINANCIAL HIGHLIGHTS

	For the six months ended 30 June		Change
	2014 (Unaudited)	2013 (Unaudited)	
Revenue (HK\$'000)	<b>5,017,367</b>	4,816,084	<b>+4.2%</b>
Profit attributable to owners of the Company (HK\$'000)	<b>65,541</b>	70,660	<b>-7.2%</b>
Basic earnings per share (HK cents) (2013 restated <sup>#</sup> )	<b>11.49</b>	13.36	<b>-14.0%</b>
Interim dividend per share (HK cents) (2013 restated <sup>#</sup> )	<b>3.00</b>	3.25	<b>-7.7%</b>

<sup>#</sup> *Adjusted for the issue of the bonus shares on the basis of one bonus share for every one ordinary share held to shareholders on 11 June 2014 for comparison purposes.*

The board of directors (the “Board”) of S.A.S. Dragon Holdings Limited (the “Company”) announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2014, 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 2014

		For the six months ended 30 June	
		2014	2013
		(Unaudited)	(Unaudited)
	Notes	HK\$'000	HK\$'000
Revenue	2	<b>5,017,367</b>	4,816,084
Cost of sales		<b>(4,822,129)</b>	(4,610,127)
Gross profit		<b>195,238</b>	205,957
Other income		<b>1,276</b>	2,555
Other gains and losses		<b>13,339</b>	6,515
Distribution and selling expenses		<b>(24,873)</b>	(25,853)
Administrative expenses		<b>(74,882)</b>	(75,004)
Share of loss of associates		<b>(11)</b>	(152)
Share of profit of joint ventures		<b>3,007</b>	3,506
Finance costs		<b>(10,472)</b>	(8,454)
Profit before tax		<b>102,622</b>	109,070
Income tax expense	3	<b>(13,686)</b>	(15,156)
Profit for the period	4	<b>88,936</b>	93,914

	Note	For the six months ended 30 June	
		2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Other comprehensive income:			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising on translation of foreign operations		(2,004)	(232)
Fair value gain/(loss) on available-for- sale investment		5,061	(1,014)
Total comprehensive income for the period		91,993	92,668
Profit for the period attributable to:			
Owners of the Company		65,541	70,660
Non-controlling interests		23,395	23,254
		88,936	93,914
Total comprehensive income attributable to:			
Owners of the Company		68,721	69,414
Non-controlling interests		23,272	23,254
		91,993	92,668
Earnings per share (HK cents)	6		
Basic (2013 restated)		HK11.49 cents	HK13.36 cents
Diluted (2013 restated)		HK11.49 cents	HK13.33 cents

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2014

	<i>Note</i>	<b>30 June 2014 (Unaudited) HK\$'000</b>	31 December 2013 (Audited) HK\$'000
<b>Non-current Assets</b>			
Investment properties		<b>192,600</b>	192,600
Property, plant and equipment		<b>180,895</b>	195,721
Prepaid lease payments		<b>8,807</b>	9,136
Goodwill		<b>16,419</b>	16,419
Interests in associates		<b>153</b>	166
Investments in joint ventures		<b>20,634</b>	17,771
Available-for-sale investments		<b>38,603</b>	33,542
Club memberships		<b>3,278</b>	3,278
Deposit paid for acquisition of property, plant and equipment		<b>13,598</b>	13,598
Deferred tax assets		<b>4,773</b>	4,493
		<b>479,760</b>	486,724
<b>Current Assets</b>			
Inventories		<b>708,418</b>	660,775
Trade and other receivables	7	<b>1,137,456</b>	928,615
Bills receivable	7	<b>16,439</b>	26,848
Derivative financial instruments		<b>465</b>	465
Prepaid lease payments		<b>194</b>	199
Financial assets at fair value through profit or loss		<b>56,618</b>	24,841
Taxation recoverable		<b>1,410</b>	931
Pledged bank deposits		<b>5,987</b>	13,153
Bank balances and cash		<b>759,392</b>	614,989
		<b>2,686,379</b>	2,270,816

		<b>30 June 2014 (Unaudited) HK\$'000</b>	31 December 2013 (Audited) HK\$'000
	<i>Notes</i>		
Current Liabilities			
Trade and other payables	8	<b>808,513</b>	747,868
Bills payable	8	<b>85,920</b>	202,277
Derivative financial instruments		–	1,926
Tax liabilities		<b>34,752</b>	27,721
Bank borrowings – due within one year		<b>1,254,955</b>	899,349
		<b>2,184,140</b>	1,879,141
Net Current Assets		<b>502,239</b>	391,675
Net Assets		<b>981,999</b>	878,399
Capital and Reserves			
Share capital	9	<b>62,428</b>	26,494
Share premium and reserves		<b>780,447</b>	736,053
Equity attributable to owners of the Company		<b>842,875</b>	762,547
Non-controlling interests		<b>139,124</b>	115,852
Total Equity		<b>981,999</b>	878,399

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2014

	Attributable to owners of the Company							Attributable to Non-controlling interests				
	Share capital	Share premium	Capital redemption reserve	Capital reserve	Contributed surplus	Property revaluation reserve	Investment revaluation reserve	Translation reserve	Warrants reserve	Retained profit	Total	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2014	26,494	38,634	1,109	11,145	13,519	37,347	1,549	5,860	6,140	620,750	762,547	115,852
Profit for the period	-	-	-	-	-	-	-	-	-	65,541	65,541	23,395
Exchange Differences arising on translation of foreign operations	-	-	-	-	-	-	-	(1,881)	-	-	(1,881)	(123)
Fair value gain on available-for-sale investment	-	-	-	-	-	-	5,061	-	-	-	5,061	-
Total comprehensive income for the period	-	-	-	-	-	-	5,061	(1,881)	-	65,541	68,721	23,272
Exercise of warrants	4,720	80,240	-	-	-	-	-	-	-	-	84,960	-
Release of warrants reserve on exercise of warrants	-	6,140	-	-	-	-	-	-	(6,140)	-	-	-
Bonus share issued	31,214	(31,214)	-	-	-	-	-	-	-	-	-	-
Dividend paid (note 5)	-	-	-	-	-	-	-	-	-	(73,353)	(73,353)	(73,353)
At 30 June 2014 (unaudited)	62,428	93,800	1,109	11,145	13,519	37,347	6,610	3,979	-	612,938	842,875	139,124
												981,999



## Attributable to owners of the Company

	Attributable to owners of the Company							Attributable to Non-controlling interests		Total HK\$'000		
	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
At 1 January 2013	26,214	33,510	1,109	11,145	13,519	37,347	1,249	4,699	6,504	497,630	83,802	716,728
Profit for the period	-	-	-	-	-	-	-	-	-	70,660	23,254	93,914
Exchange Differences arising on translation of foreign operations	-	-	-	-	-	-	-	(232)	-	-	-	(232)
Fair value loss on available-for-sale investment	-	-	-	-	-	-	(1,014)	-	-	-	-	(1,014)
Total comprehensive income for the period	-	-	-	-	-	-	(1,014)	(232)	-	70,660	23,254	92,688
Exercise of warrants	280	4,760	-	-	-	-	-	-	-	-	-	5,040
Release of warrants reserve on exercise of warrants	-	364	-	-	-	-	-	-	(364)	-	-	-
Dividend paid to non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	(10,500)	(10,500)
Dividend paid (note 5)	-	-	-	-	-	-	-	-	(31,799)	(31,799)	-	(31,799)
At 30 June 2013 (unaudited)	26,494	33,634	1,109	11,145	13,519	37,347	235	4,467	6,140	536,497	675,587	772,143

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2014

	For the six months ended 30 June	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Net cash used in operating activities	<b>(227,660)</b>	(243,071)
Net cash from (used in) investing activities	<b>15,322</b>	(14,488)
Net cash from financing activities	<b>356,741</b>	415,213
Net increase in cash and cash equivalents	<b>144,403</b>	157,654
Cash and cash equivalents at beginning of the period	<b>614,989</b>	407,599
Cash and cash equivalents at end of the period, represented by bank balances and cash	<b>759,392</b>	565,253

## 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 2014 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2013.

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

Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting
HK(IFRIC) – Int 21	Levies

The application of the above new Interpretation and amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

## 2. Revenue and segment information

### Revenue from major business products 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	
	2014 HK\$'000	2013 HK\$'000
Distribution of electronic components and semiconductor products	4,999,955	4,797,859
Distribution of sport products	14,127	15,646
Office building rental	3,285	2,579
	<b>5,017,367</b>	<b>4,816,084</b>

### Geographical information

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

The following is an analysis of the Group's revenue by geographical locations of customers and properties for rental income for the period:

	<b>For the six months ended 30 June</b>	
	<b>2014</b>	2013
	<b>HK\$'000</b>	HK\$'000
The PRC	<b>3,474,151</b>	3,252,658
Hong Kong	<b>1,240,359</b>	1,329,989
Taiwan	<b>228,418</b>	143,663
Mexico	<b>17,129</b>	34,875
India	<b>4,503</b>	13,477
Singapore	<b>1,324</b>	7,792
Others	<b>51,483</b>	33,630
	<b>5,017,367</b>	4,816,084

### 3. Income tax expense

	<b>For the six months ended 30 June</b>	
	<b>2014</b>	2013
	<b>HK\$'000</b>	HK\$'000
The charge comprises:		
Hong Kong Profits Tax	<b>13,282</b>	13,880
Taiwan Corporate Income Tax	<b>501</b>	1,560
PRC Enterprise Income Tax	<b>183</b>	–
Deferred tax	<b>(280)</b>	(284)
	<b>13,686</b>	15,156

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.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%. No PRC income tax was payable by the Group since the PRC subsidiaries incurred tax losses for the six months ended 30 June 2013.

#### 4. Profit for the period

	For the six months ended 30 June	
	2014 HK\$'000	2013 HK\$'000
Profit for the period has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment and amortization of prepaid lease payments	8,501	8,399
Interest income	(383)	(489)
Dividend income	(461)	(403)

#### 5. Dividend paid

	For the six months ended 30 June	
	2014 HK\$'000	2013 HK\$'000
Final and special dividends paid during the period in respect of the previous financial year of HK23.5 cents (2013: final dividend paid during the period in respect of the previous financial year of HK12.0 cents) per share	73,353	31,793

## 6. Earnings per share

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	<b>For the six months ended 30 June</b>	
	<b>2014</b>	2013
	<b>HK\$'000</b>	HK\$'000
<b>Earnings:</b>		
Profit attributable to owners of the Company, for the purpose of basic and diluted earnings per share	<b>65,541</b>	70,660
<b>Number of shares</b>		
	<b>2014</b>	2013
		(Restated)
<b>Number of shares:</b>		
Weighted average number of ordinary shares for the purpose of basic earnings per share	<b>570,343,318</b>	528,829,506
Effect of dilutive potential ordinary shares in respect of warrants	–	1,409,322
Weighted average number of ordinary shares for diluted earnings per share	<b>570,343,318</b>	530,238,828

The Group issued bonus shares on 11 June 2014 on the basis of one bonus share for every one ordinary share at a par value of HK\$0.1 each to shareholders whose names appear on the register of members on 10 June 2014. The number of shares before the issue of the bonus share was restated to reflect the issue of bonus shares.

## 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:

	<b>30 June 2014 HK\$'000</b>	31 December 2013 HK\$'000
Current	<b>805,869</b>	711,853
Within 30 days	<b>217,942</b>	155,355
More than 30 days and within 60 days	<b>32,128</b>	25,188
More than 60 days and within 90 days	<b>3,398</b>	3,960
More than 90 days	<b>9,128</b>	4,020
Trade receivables and bills receivable	<b>1,068,465</b>	900,376
Other receivables	<b>85,430</b>	55,087
	<b>1,153,895</b>	955,463

## 8. Trade and Other Payables and Bills Payable

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

	<b>30 June 2014 HK\$'000</b>	31 December 2013 HK\$'000
Current	<b>677,283</b>	778,799
Within 30 days	<b>98,828</b>	43,986
More than 30 days and within 60 days	<b>30,578</b>	21,119
More than 60 days and within 90 days	<b>8,652</b>	16,029
More than 90 days	<b>12,195</b>	15,815
Trade payables and bills payable	<b>827,536</b>	875,748
Other payables	<b>66,897</b>	74,397
	<b>894,433</b>	950,145



## 9. Share Capital

	30 June 2014		As at 31 December 2013	
	Number of shares '000	Amount HK\$'000	Number of shares '000	Amount HK\$'000
Ordinary shares of HK\$0.10 each				
<i>Authorised:</i>				
At 1 January	1,454,000	145,400	1,454,000	145,400
<i>Issued and fully paid:</i>				
At 1 January	264,941	26,494	262,141	26,214
Exercise of warrants	47,200	4,720	2,800	280
Issue of bonus shares ( <i>note</i> )	312,140	31,214	–	–
	<b>624,281</b>	<b>62,428</b>	264,941	26,494

*Note:* The Group issued bonus shares on 11 June 2014 on the basis of one bonus share for every one ordinary share held to shareholders whose names appear on the register of members on 10 June 2014.

## 10. Connected and Related Party Transactions and Balances

### (I) Connected parties

During the period, the Group had significant transactions and balances with deemed connected parties pursuant to the Listing Rules. The significant transactions during the period and balances at the end of the reporting period with a substantial shareholder and its subsidiaries are as follows:

#### (a) Transactions

Name of party	Nature of transactions	For the six months ended 30 June	
		2014 HK\$'000	2013 HK\$'000
Hon Hai Precision Industry Co Ltd ("Hon Hai") (note) and its subsidiaries	Purchases of electronic products by the Group	264,857	279,125
	Sales of electronic products by the Group	211,263	133,618

#### (b) Balances

Name of party	Nature of balances	30 June	31 December
		2014 HK\$'000	2013 HK\$'000
Hon Hai and its subsidiaries	Trade receivables	167,396	53,883
	Trade payables	123,985	242,276

*Note:* Hon Hai is a substantial shareholder of the Company, who held 19.86% of the issued share capital of the Company as at 30 June 2014.

**(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 end of the reporting period, are as follows:

**(a) Transactions**

Name of party	Nature of transactions	For the six months ended 30 June	
		2014 HK\$'000	2013 HK\$'000
Joint venture:			
SPT Technology Ltd	Purchases of electronic products	49,494	45,394
	Sales of electronic products	345	146

**(b) Balances**

Name of party	Nature of balances	30 June	31 December
		2014 HK\$'000	2013 HK\$'000
Joint venture:			
SPT Technology Ltd	Trade payables	6,560	6,277
	Trade receivables	193	90

## **EVENT AFTER THE REPORTING PERIOD**

On 14 August 2014, S.A.S. Investment Company Limited, a wholly-owned subsidiary of the Company, entered into the Sale and Purchase Agreement with the vendor regarding the acquisition of 49% of the issued share capital of Time Speed Technology Corporation (時暉科技股份有限公司) at the consideration of NT\$120,000,000 (equivalent to approximately HK\$31,662,000). Details of the acquisition was set out in the announcement dated 14 August 2014.

## **INTERIM DIVIDEND**

The Board has resolved to declare an interim dividend of HK3.0 cents (2013: HK6.5 cent) per share payable to the shareholders of the Company whose names appear on the Register of Members of the Company on 12 September 2014. The dividend warrants are expected to despatch to shareholders on or about 19 September 2014.

## **CLOSURE OF REGISTERS OF MEMBERS**

The registers of members of the Company will be closed from 10 September 2014 to 12 September 2014, 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 Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on 8 September 2014.

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

#### *Distribution of Electronic Components and Semiconductor Products*

For the six months ended 30 June 2014, the Group achieved record turnover of HK\$5.0 billion, up 4.2% from HK\$4.8 billion recorded in the same period of last year. Such growth mainly came from growing demand of smartphones for export and online market, tablets, high definition smart TVs and smart home related networking products as well as the LED lighting products in the Greater China Region.

#### *Mobile Phone Products*

During the period under review, despite the demand for 4G smartphones was generally slow caused by delays in launches of 4G processors and a limited number of price-friendly 4G smartphone models in the market, replacement of feature phones by smartphones in emerging markets remains the key driver of smartphone growth. More China-based smartphone vendors enhanced their overseas and online marketing to promote entry-level and mid-range smartphones in order to expand their market share.

The Group's revenue was boost by delivering more competitive baseband processors, larger and high resolution panels, larger storage memory, high resolution camera, more sensible touch panel as well as multi-function motion sensors and related driver ICs solutions to those handset manufacturers, design house and module factories in the Greater China region.

#### *Consumer Electronic Products*

Growing demand of high definition 4K2K smart TVs, tablets, electronic learning devices, as well as intelligent smart appliances from those branded manufacturers has generated satisfactory contributions to the Group during the period under review.

### *Telecommunication and Networking Products*

Connectivity becomes the key of next mega trends like smart home, cloud computing and Internet of Things. The Group's revenue increased by providing competitive 4G LTE, Zigbee, Wi-Fi and Bluetooth solutions for smart home control devices, data centre and routers to those telecommunication and networking equipment manufacturers and system integrators during the period under review.

### *LED Lighting Products*

Despite the slowdown of property and retail markets in China and Hong Kong, the Group extended its footprint and 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 the Asia Pacific region under the



branding.

Meanwhile, the Group successfully launched a series of new competitive products like LED phosphors, low cost high performance GaN-on-Silicon LED chips and patented optical lens solutions to a number of LED chip packaging and fixture manufacturers. 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 approximately HK\$205 million during the period under review, representing a growth of 15% compared with approximately HK\$178 million recorded in same period of last year.

### *Properties investment*

As of 30 June 2014, the Group continue to carry the 6 units of investment properties (31 December 2013: 6 units), all of which are commercial units located in Hong Kong. The aggregate carrying value of investment properties amounted to HK\$193 million (31 December 2013: HK\$193 million).

The above investment properties altogether generated rental turnover of HK\$3.3 million (2013: HK\$2.6 million) with an annualized return of 3.4% (2013: 2.9%).

## OUTLOOK

Looking ahead, we are still cautiously optimistic about our business outlook. According to International Data Corporation (IDC), global smartphone shipments for 2014 will reach a total of 1.2 billion units, representing a 20% increase from the 1.0 billion units shipped in 2013. Despite the slowdown in China's market demand in the first half of 2014, most Chinese smartphone vendors plan to launch more new 4G smartphone models in the second half of 2014 and remain bullish on their annual shipment targets.

Also, we believe those IT hardware likes smartphones, tablets, smart home control devices and networking products will be one of the important organ for next mega trends such as cloud computing, Internet of Things and big data mining and we are bullish for the future demand of electronic components and semiconductor products.

At the same time, despite the Group sales penetration to Hon Hai Group is not significant during the period under review, the Group expected there will be larger order allocation from Hon Hai Group in the second half of 2014. Moreover, we are seeking opportunity to work with more leading IT hardware companies in the near future.

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 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.

To be 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 2014, the Group achieved record turnover of approximately HK\$5,017,367,000, up 4.2% from HK\$4,816,084,000 achieved in the same period of last year. Gross profit was HK\$195,238,000, declined from HK\$205,957,000 achieved in the same period of last year. Gross profit margin was 3.9%, declined from 4.3% achieved in the same period of last year, mainly due to more sales of higher value products such as memory chip and panel solutions. The Group has executed efficient cost control measures to improve its cost efficiency such that its distribution, selling and administrative expenses collectively decreased by 1% when compared with the same period of last year while the turnover increased during the period under review. As a result, the net profit for the period was HK\$65,541,000, decreased 7.2% compared with HK\$70,660,000 recorded in same period of last year. Basic earnings per share was HK11.49 cents (2013 restated: HK13.36 cents).

### Liquidity and Financial Resources

As of 30 June 2014, the Group's current ratio was 123% (31 December 2013: 121%). The Group's net gearing ratio was 44% (31 December 2013: 28%), 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\$432,958,000 (31 December 2013: HK\$246,366,000) over total equity of HK\$981,997,000 (31 December 2013: HK\$878,399,000). 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 distribution business on 30 June 2014.

The Group recorded debtors turnover of approximately 39 days for the period under review (2013: 46 days) based on the amount of trade and bills receivable as at 30 June 2014 divided by sales for the same period and multiplied by 181 days (2013: 181 days).

The Group recorded inventory turnover and average payable period of approximately 27 days and 31 days respectively for the period under review (2013: approximately 29 days and 38 days respectively) based on the amount of inventory and trade and bills payables as at 30 June 2014 divided by cost of sales for the same period and multiplied by 181 days (2013: 181 days).



The Group recorded net operating cash outflow of HK\$227,660,000 and increase in bank borrowings of HK\$355,607,000 for the period under review, compared with net operating cash outflow of HK\$243,071,000 and increase in bank borrowings of HK\$460,920,000 for the same period in 2013.

### **Capital structure**

Details of the changes of the capital structure of the Company during the six months ended 30 June 2014 are set out in the note 9 to the condensed consolidated financial statements.

### **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 payable denominated in foreign currencies.

### **Employee and Remuneration Policy**

At 30 June 2014, 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 2014, certain of the Group's assets (including investment properties, bank deposits, factored trade receivables and financial assets at fair value through profit or loss) with the carrying value of totaling approximately HK\$273 million were pledged to secure general banking facilities granted to the Group.

## DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 30 June 2014, 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

#### 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 <i>JP</i>	Beneficial owner	29,180,000	4.67%
	Held by controlled corporation ( <i>note</i> )	227,542,800	36.45%
		256,722,800	41.12%
Wong Sui Chuen	Beneficial owner	1,824,000	0.29%
Lau Ping Cheung	Beneficial owner	1,000,000	0.16%
Lock Shui Cheung	Beneficial owner	800,000	0.13%

*Note:* These shares 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 2014.

## SUBSTANTIAL SHAREHOLDERS

At 30 June 2014, 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 ( <i>note</i> )	124,000,000	19.86%
Foxconn Holding Limited ("Foxconn")	Beneficial owner	124,000,000	19.86%

*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 2014.

## SHARE OPTION SCHEME

The Company has not granted or issued any share option up to 30 June 2014.

## 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 2014, 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, two independent non-executive directors of the Company were unable to attend the annual general meeting of the Company held on 30 May 2014 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 2014.

## **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 2014.

## **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  
**S.A.S. Dragon Holdings Limited**  
**Yim Yuk Lun, Stanley JP**  
*Chairman and Managing Director*

Hong Kong, 25 August 2014