



2017

INTERIM REPORT



S.A.S. Dragon Holdings Limited

(Stock Code: 1184)



This Interim Report is printed on environmentally friendly paper

CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Yim Yuk Lun, Stanley *JP*
(Chairman and Managing Director)
 Mr. Wong Sui Chuen
 Mr. Yim Tsz Kit, Jacky
 Mr. Wong Wai Tai

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
 Kowloon, 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

STOCK CODE

The Stock Exchange of Hong Kong Limited:
 1184

FINANCIAL HIGHLIGHTS

	For the six months ended 30 June		Change
	2017 (Unaudited)	2016 (Unaudited)	
Revenue (HK\$'000)	7,401,948	4,301,948	+72.1%
Profit attributable to owners of the Company (HK\$'000)	120,867	78,322	+54.3%
Basic earnings per share (HK cents)	19.36	12.55	+54.3%
Interim dividend per share (HK cents)	4.80	3.50	+37.1%

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 2017, 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 2017

		For the six months ended 30 June	
		2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
Revenue	2	7,401,948	4,301,948
Cost of sales		(7,040,786)	(4,122,647)
Gross profit		361,162	179,301
Other income	4(b)	11,659	3,609
Other gains and losses	4(c)	25,438	46,363
Distribution and selling expenses		(56,545)	(28,621)
Administrative expenses		(146,634)	(86,982)
Share of gain of associates		5,215	1,940
Share of profit (loss) of joint ventures		184	(61)
Finance costs		(33,329)	(15,133)
Profit before tax		167,150	100,416
Income tax expense	3	(23,757)	(11,947)
Profit for the period	4(a)	143,393	88,469

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (Continued)

For the six months ended 30 June 2017

	Notes	For the six months ended 30 June	
		2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
Other comprehensive (expense) income:			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Fair value gain on property, plant and equipment transferred to investment properties		10,493	–
Exchange differences arising on translation of foreign operations of subsidiaries		2,608	(8,720)
Reclassification adjustment on disposal of available-for-sale investment		(4,743)	–
Fair value gain on available-for-sale investments		(1,840)	4,032
Realisation of exchange reserve		–	(1,304)
Total comprehensive income for the period		149,911	82,477
Profit for the period attributable to:			
Owners of the Company		120,867	78,322
Non-controlling interests		22,526	10,147
		143,393	88,469
Total comprehensive income attributable to:			
Owners of the Company		126,914	72,831
Non-controlling interests		22,997	9,646
		149,911	82,477
Earnings per share (HK cents)	6		
– basic		HK19.36 cents	HK12.55 cents
– diluted		HK19.36 cents	HK12.55 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

	30 June 2017 (Unaudited) HK\$'000	31 December 2016 (Audited) HK\$'000
Note		
Non-current Assets		
Investment properties	508,648	493,940
Property, plant and equipment	453,376	415,466
Other intangible assets	6,198	6,914
Interests in associates	76,376	70,522
Investments in joint ventures	5,206	5,021
Available-for-sale investments	31,115	58,491
Club memberships	3,012	3,012
Finance lease receivables	53,483	56,746
Deferred tax assets	6,272	6,508
	1,143,686	1,116,620
Current Assets		
Inventories	1,922,049	1,109,780
Trade and other receivables	2,398,257	1,559,258
Finance lease receivables	24,099	26,239
Amount due from an associate	72	220
Derivative financial instruments	908	190
Financial assets at fair value through profit or loss	27,815	34,217
Taxation recoverable	4,004	2,764
Bank balances and cash	526,966	606,185
	4,904,170	3,338,853

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

As at 30 June 2017

		30 June 2017 (Unaudited) HK\$'000	31 December 2016 (Audited) HK\$'000
	Note		
Current Liabilities			
Trade and other payables	8	1,170,786	939,797
Bills payable	8	69,671	36,981
Amount due to an associate		555	1,410
Derivative financial instruments		141	18,593
Tax liabilities		38,344	17,484
Bank borrowings – due within one year		3,275,581	2,062,397
Other borrowings		23,873	26,239
		4,578,951	3,102,901
Net Current Assets		325,219	235,952
Total assets less current liabilities		1,468,905	1,352,572
Non-current Liabilities			
Deferred tax liabilities		12,419	12,737
Bank borrowings – due after one year		187,228	145,085
Other borrowings		53,135	56,746
		252,782	214,568
Net Assets		1,216,123	1,138,004
Capital and Reserves			
Share capital		62,428	62,428
Share premium and reserves		1,040,120	984,997
Equity attributable to owners of the Company		1,102,548	1,047,425
Non-controlling interests		113,575	90,579
Total Equity		1,216,123	1,138,004

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

	Attributable to owners of the Company							Attributable to Non-controlling interests	Total					
	Share capital	Share premium	Capital redemption reserve	Capital reserve	Other reserve	Contributed surplus	Property revaluation reserve			Investment revaluation reserve	Translation reserve	Share option reserve	Retained profit	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 2017	62,428	1,718	1,109	11,145	(10,236)	13,519	65,999	22,749	(35,901)	1,962	912,933	1,047,425	90,579	1,138,004
Profit for the period	-	-	-	-	-	-	-	-	-	-	120,867	120,867	22,526	143,393
Fair value gain on property, plant and equipment transferred to investment properties	-	-	-	-	-	-	10,493	-	-	-	-	10,493	-	10,493
Fair value gain available-for-sale investment	-	-	-	-	-	-	-	(1,840)	-	-	-	(1,840)	-	(1,840)
Reclassification adjustment on disposal of available-for-sale investments	-	-	-	-	-	-	-	(4,743)	-	-	-	(4,743)	-	(4,743)
Exchange differences arising on translation of foreign operations of subsidiaries	-	-	-	-	-	-	-	-	2,138	-	-	2,138	470	2,608
Total comprehensive income for the period	-	-	-	-	-	-	10,493	(6,583)	2,138	-	120,867	126,915	22,996	149,911
Dividend paid (note 5)	-	-	-	-	-	-	-	-	-	-	(71,792)	(71,792)	-	(71,792)
At 30 June 2017 (unaudited)	62,428	1,718	1,109	11,145	(10,236)	13,519	76,492	16,166	(33,763)	1,962	962,008	1,102,548	113,575	1,216,123

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

For the six months ended 30 June 2017

	Attributable to owners of the Company										Attributable to Non-controlling interests	Total		
	Share capital	Share premium	Capital redemption reserve	Capital reserve	Other reserve	Contributed surplus	Property revaluation reserve	Investment revaluation reserve	Transition reserve	Share option reserve			Retained profit	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	HK\$'000	
At 1 January 2016	62,408	1,718	1,109	11,145	(19,238)	13,519	37,347	1,549	(3,544)	1,634	774,984	882,651	117,938	1,000,589
Profit for the period	-	-	-	-	-	-	-	-	-	-	78,322	78,322	10,147	88,469
Fair value gain available-for-sale investment	-	-	-	-	-	-	-	4,032	-	-	-	4,032	-	4,032
Realization of exchange reserve	-	-	-	-	-	-	-	-	(1,304)	-	-	(1,304)	-	(1,304)
Exchange differences arising on translation of foreign operations	-	-	-	-	-	-	-	-	(8,219)	-	-	(8,219)	(601)	(8,720)
Total comprehensive income for the period	-	-	-	-	-	-	-	4,032	(9,523)	-	78,322	72,831	9,646	82,477
Dividend paid to non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	-	-	(19,600)	(19,600)
Dividend paid (note 5)	-	-	-	-	-	-	-	-	-	-	(28,092)	(28,092)	-	(28,092)
Dividend by way of a distribution in specie	-	-	-	-	-	-	-	-	-	19	(13,950)	(13,950)	-	(13,950)
Equity-settled share-based payments	-	-	-	-	-	-	-	-	-	19	-	19	-	19
Acquisition of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	3,000	3,000
Derecognition of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	(23,781)	(23,781)
At 30 June 2016 (unaudited)	62,408	1,718	1,109	11,145	(19,238)	13,519	37,347	5,581	(13,067)	1,633	811,264	913,459	87,203	1,000,662

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS*For the six months ended 30 June 2017*

	For the six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Net cash (used in) from operating activities	(1,224,397)	32,403
Net cash (used in) investing activities	(5,517)	(65,701)
Net cash from financing activities	1,150,207	106,351
Net (decrease) increase in cash and cash equivalents	(79,707)	73,053
Cash and cash equivalents at beginning of the period	606,185	658,131
Effect of foreign exchange rate changes	488	(178)
Cash and cash equivalents at end of the period, represented by bank balances and cash	526,966	731,006

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”).

Except as for the adoption of new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), which are effective for the Group’s financial year beginning 1 January 2017, the accounting policies applied in preparing this unaudited condensed consolidated financial information for the six months ended 30 June 2017 are consistent with those of the annual financial statements for the year ended 31 December 2016, as described in those annual financial statements. The condensed consolidated financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2016.

The Group has applied the following new amendments to HKFRSs issued by the HKICPA for the first time in current period.

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses

The Group has not early applied the new and revised HKFRSs that have been issued by the HKICPA but are not yet effective. The application of these new and revised HKFRSs is not expected to have material impact on the condensed financial information of the Group.

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	
	2017 HK\$'000	2016 HK\$'000
Distribution of electronic components and semiconductor products	7,259,850	4,297,742
Distribution of home appliances and business equipment and provision of related ancillary services	134,960	–
Rental income from investment properties	7,138	4,206
	7,401,948	4,301,948

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:

	For the six months ended 30 June	
	2017 HK\$'000	2016 HK\$'000
The PRC	5,656,448	3,118,960
Hong Kong	1,497,818	1,027,976
Taiwan	155,441	81,728
Others	92,241	73,284
	7,401,948	4,301,948

2. REVENUE AND SEGMENT INFORMATION (Continued)

Revenue from a customer individually contributing over 10% of the Group's revenue is as follows:

	Revenue from a customer individually contributing over 10% of the Group's revenue For the six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
Customer A	2,167,732	873,273

3. INCOME TAX EXPENSE

	For the six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
The charge comprises:		
Hong Kong Profits Tax	20,814	11,453
Taiwan Corporate Income Tax	1,575	388
PRC Enterprise Income Tax	1,598	391
Deferred tax	(230)	(285)
	23,757	11,947

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% for both periods.

4. PROFIT FOR THE PERIOD

	For the six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
(a) Profit for the period		
Profit for the period has been arrived at after charging (crediting):		
Staff costs, including directors' remunerations		
– salaries and other benefits	59,944	40,221
– performance related incentive payments	15,595	8,190
– retirement benefits scheme contributions	6,227	4,811
– share-based payment expenses	–	19
	81,766	53,241
Depreciation of property, plant and equipment	7,232	8,020
Amortisation of intangible assets (included in administrative expenses)	716	–
Allowance of trade receivables, net	12,169	1,452
Cost of inventories recognized as an expense (including allowance of inventories of HK\$8,726,000 (2016: allowance of inventories of HK\$5,810,000))	7,040,786	4,122,647
Rental income from investment properties, net of outgoings	7,138	4,206

4. PROFIT FOR THE PERIOD (Continued)

	For the six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
(b) Other income		
Dividend income from equity investments	(6,503)	(2,069)
Interest income	(214)	(274)
Interest income on finance leases	(6)	–
Others	(4,936)	(1,266)
	(11,659)	(3,609)
(c) Other gains and losses		
Net gain on fair value change of derivative financial instruments	(19,170)	(36,763)
Fair value gain on retained interest in Hi-Level Technology Holdings Limited ("Hi-Level Technology") held by the Group	–	(23,316)
Gain on disposal of available-for-sale investments	(4,743)	–
Gain on disposal of financial assets at fair value through profit or loss	(2,285)	–
Change in fair value of financial assets at fair value through profit or loss	(259)	5,478
Gain on disposal of property, plant and equipment	(50)	–
Net foreign exchange loss	1,069	8,238
	(25,438)	(46,363)

5. DIVIDEND PAID

For the six months ended 30 June	
2017	2016
HK\$'000	HK\$'000

Final and special dividend paid during the period in respect of previous financial year of HK6.5 cents and HK5.0 cents (2016: final dividend paid during the period in respect of the previous financial year of HK4.5 cents) per share respectively

<u>71,792</u>	<u>28,092</u>
---------------	---------------

6. EARNINGS PER SHARE

The calculation of the basic earnings per share for the six months ended 30 June 2017 is based on the profit for the period attributable to owners of the Company of approximately HK\$120,867,000 (2016: HK\$78,322,000) and on the weighted average number of 624,281,440 (2016: 624,281,440) ordinary shares in issued during the period.

The computation of diluted earnings per share for the six months ended 30 June 2017 and 2016 does not assume the exercise of the Company's outstanding share options because the exercise prices of those share options were higher than the average market price for the corresponding period.

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 2017 HK\$'000	31 December 2016 HK\$'000
Current	1,683,301	1,058,299
Within 30 days	372,308	229,000
More than 30 days and within 60 days	69,192	57,378
More than 60 days and within 90 days	40,233	23,847
More than 90 days	35,304	52,481
Trade receivables and bills receivable	2,200,338	1,421,005
Other receivables	197,919	138,253
	<u>2,398,257</u>	<u>1,559,258</u>

During the period under review, the Group's five largest customers accounted for 45% (31 December 2016: 37%) of the Group's total revenue. Subsequent settlements after reporting period of the trade receivables from these major customers have been reviewed and are satisfactory requiring no provisions.

8. TRADE AND OTHER PAYABLES AND BILLS PAYABLE

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

	30 June 2017 HK\$'000	31 December 2016 HK\$'000
Current	937,513	699,956
Within 30 days	83,203	79,608
More than 30 days and within 60 days	50,249	20,402
More than 60 days and within 90 days	25,693	11,688
More than 90 days	20,775	57,585
Trade payables and bills payable	1,117,433	869,239
Other payables	123,024	107,539
	1,240,457	976,778

9. Connected Party Transactions and Balances

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	
		2017 HK\$'000	2016 HK\$'000
Hon Hai Precision Industry Co Ltd ("Hon Hai") (note) and its subsidiaries	Sales of electronic products by the Group	1,184,035	414,615
	Purchases of electronic products by the Group	623,373	170,760
	Rental expense paid by the Group	5,584	–
	Reimbursement of warranty services provided by the Group	4,194	–

(b) Balances

Name of party	Nature of balances	30 June	31 December
		2017 HK\$'000	2016 HK\$'000
Hon Hai and its subsidiaries	Trade receivables	940,741	466,318
	Trade payables	213,073	246,148

Note: Hon Hai is a substantial shareholder of the Company, who held 19.9% of the issued share capital of the Company as at 30 June 2017.

9. Connected Party Transactions and Balances *(Continued)*

Pursuant to the renewal agreement entered into the Company and Hon Hai to govern the continuing connected transactions on 9 November 2015, the Group has sold and purchased electronic components and other products between the Group and Hon Hai Group from time to time for a term up to 31 December 2018 upon and subject to the terms and conditions set out therein at a price determined as follows:

- (a) the members of the Group who are parties to the Continuing Connected Transactions shall receive or pay such consideration for the transactions with members of the Hon Hai Group based on market rates or rates which are no less favourable than those available from or to (as appropriate) independent third parties;
- (b) the terms of the Continuing Connected Transactions shall be fair and reasonable and negotiated on arm's length basis;
- (c) for purchases made by the Group from Hon Hai Group, as the members of the Hon Hai Group are the approved vendors designated by certain end-customers, the Group will review and ensure prices for products to be purchased are charged on a cost-plus basis with reasonable profit margin;
- (d) for sales made by the Group to Hon Hai Group, for the purpose of ensuring the terms of sales being fair and reasonable, the Group will review its pricing policy based on the following factors:
 - (i) the historical selling price of similar products;
 - (ii) the market information obtained from current customers or other vendors;
 - (iii) quotations from independent third party(ies); or
 - (iv) continuing to expand the Company's customer base and obtaining market information from those customers; and
- (e) the total amount of the Continuing Connected Transactions shall not exceed the applicable caps or such other caps as approved by the Independent Shareholders from time to time.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK4.8 cents (2016: HK3.5 cents) per share payable to the shareholders of the Company whose names appear on the register of members of the Company on 27 September 2017. The dividend warrants are expected to despatch to shareholders on or about 9 October 2017.

CLOSURE OF REGISTERS OF MEMBERS

The register of members of the Company will be closed from 25 September 2017 to 27 September 2017, 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 22 September 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Distribution of Electronic Components and Semiconductor Products

During the period under review, being benefited from the satisfactory performance of our broadened product lines after addition of new product lines with high growth potential such as SHARP, Toshiba and Jahwa Electronics and an increase in the average selling prices of upgraded key electronic components such as 3D NAND memory chips, LTPS panels and optoelectronic products for multi-lens camera phones, the Group's component sales team delivered strong results for the six months ended 30 June 2017 and achieved record revenue of HK\$7.3 billion, increased 70% from HK\$4.3 billion recorded in same period in 2016.

Green value engineering (GVE)

Being the preferred and trusted partner of luxury international hotel chains and large property owners and developers, our GVE team has successfully tendered more build-and-operate orders for large indoor and outdoor LED displays and advertising screens under our owned brands of "Light in Motion"  and "Light in Motion Plus"  in the Asia Pacific region.

Distribution of home appliances and business equipment and provision of related ancillary services

Since being appointed as the sole and exclusive distributor by SHARP Corporation in Sept 2016, we posted satisfactory results by promoting SHARP's full-line products in Hong Kong and Macau. We will keep investing in this segment by rolling out more on-line and off-line media advertisements and sponsoring more eye-catching events in order to boost the brand image. Also aiming to further enhance customer experience, our e-commerce platform is ready to launch in the second half of 2017.

Properties investment

As at 30 June 2017, the Group carried 13 units of investment properties (31 December 2016: 12 units) for commercial and industrial uses in Hong Kong and the PRC. The aggregate carrying value of investment properties amounted to HK\$509 million (31 December 2016: HK\$494 million). During the period under review, the above investment properties altogether generated rental income of HK\$7.1 million (2016: HK\$4.2 million) with an annualized return of 2.8% (2016:1.9%).

OUTLOOK

The global semiconductor industry is undergoing rapid technical breakthrough and development with better product functionality which lead people move towards a smarter era where all smart devices will be connected to cloud and powered by artificial intelligence (AI). The Group will continue to focus on fast growing sectors such as Internet of Things, AI, cloud computing, Big Data and GVE. As a good start in second half of 2017, the Group posted revenue of approximately HK\$2 billion in July 2017, being record high single month revenue of the Group.

By the end of 2017, we will set up 10 more sales offices mainly in North and East China to provide more local support to our customers so as to sustain our competitiveness in the Greater China region, also we will complete the construction of the new 20-storey intelligent building at Kwai Chung for our headquarter office and warehouse center so as to strengthen the operation efficiency of the Group.

By leveraging on Hon Hai Group and SHARP Corporation's leading position in electronic component to consumer electronic regimes and our over 35 years of experience, industry expertise, market recognition and brand management ability, we are confident to pursue a healthy and sustainable business growth and generate more returns to our shareholders.

FINANCIAL REVIEW

Results

For the period ended 30 June 2017, the Group achieved a satisfactory growth rate of 72% in revenue to HK\$7,401,948,000, mainly due to the satisfactory performance of our existing and several new product lines and an increase in the average selling prices of key electronic components. Due to the continued improvement of product line mix, gross profit margin increased to 4.9% from 4.2% recorded in same period last year. Gross profit was HK\$361,162,000, increased 101% from HK\$179,301,000 recorded in same period last year. Net profit for the period was HK\$120,867,000, increased 54% compared with HK\$78,322,000 recorded in same period last year. Basic earnings per share for the period was HK19.36 cents (2016: HK12.55 cents).

Liquidity, Financial Resources and Capital Structure

During the period under review, the Group's primary sources of funding included cash generated from operating activities and the credit facilities provided by the Group principal banks in Hong Kong.

As of 30 June 2017, the Group's current ratio was 107% (31 December 2016: 108%). The Group's net gearing ratio was 245% (31 December 2016: 145%), defined as the Group's net borrowings (calculated as total bank and other borrowings minus total cash and bank balances minus financial assets at fair value through profit or loss) of approximately HK\$2,985,036,000 (31 December 2016: HK\$1,650,065,000) over total equity of HK\$1,216,123,000 (31 December 2016: HK\$1,138,004,000). 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 fulfill persisted high level shipments made during January to July 2017 when compared with same period last year.

The Group recorded debtors turnover of approximately 54 days for the period under review (2016: 51 days) based on the amount of trade and bills receivable as at 30 June 2017 divided by sales for the same period and multiplied by 181 days (2016: 182 days).

The Group recorded inventory turnover and average payable period of approximately 49 days and 29 days respectively for the period under review (2016: approximately 32 days and 38 days respectively) based on the amount of inventory and trade and bills payables as at 30 June 2017, divided by cost of sales for the same period and multiplied by 181 days (2016: 182 days).

Management believes that the Group's current cash and bank balances, together with available credit facilities and expected cash flow from operations, will be sufficient to satisfy the current operational requirements and capital expenditure of the Group.

Capital Expenditure

Total capital expenditure incurred for the period under review was HK\$49,344,000 (31 December 2016: HK\$66,627,000), which was mainly used in the construction of a new 20-storey industrial building for the Group's headquarter office and warehouse center at Kwai Chung in Hong Kong.

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.

Pledge of Assets

As at 30 June 2017, certain of the Group's assets (including investment properties, leasehold land and building, trade receivables and investments held-for-trading) with the carrying value of totaling approximately HK\$1,278 million were pledged to banks to secure general banking facilities granted to the Group.

Employee and Remuneration Policy

At 30 June 2017, the Group employed approximately 650 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.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 30 June 2017, 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	61,494,000	9.85%
	Held by controlled corporation (Note 1)	227,542,800	36.45%
		289,036,800	46.30%
Wong Sui Chuen	Beneficial owner	1,824,000	0.29%

(b) Ordinary shares of HK\$0.01 each of Hi-Level Technology (“Hi-Level shares”)

Name of directors	Capacity	Number of issued ordinary shares held	Percentage of issued share capital of Hi-Level
Yim Yuk Lun, Stanley <i>JP</i>	Beneficial owner (<i>Note 2</i>) Held by controlled corporation (<i>Note 2</i>)	27,862,861	4.55%
		206,633,000	33.75%
		234,495,861	38.30%
Wong Sui Chuen	Beneficial owner	1,331,328	0.22%

Notes:

1. 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*.
2. Mr. Yim Yuk Lun, Stanley *JP* beneficially owns 27,862,861 Hi-Level shares and is the controlling shareholder of the Company; he is therefore under the SFO deemed to be interested in 206,633,000 Hi-Level shares held by S.A.S. Investment Company Limited (“S.A.S. Investment”) which is a wholly-owned subsidiary of the Company.

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 2017.

SUBSTANTIAL SHAREHOLDERS

At 30 June 2017, 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	19.9%
Foxconn Holding Limited ("Foxconn")	Beneficial owner	124,000,000	19.9%

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 2017.

SHARE OPTION SCHEME

(a) Share option scheme of the Company

Pursuant to the Company's share option scheme, the following share options were outstanding during six months period ended 30 June 2017:

	Date of grant	Exercise price HK\$	Exercisable period	Number of options outstanding at 1.1.2017	Granted during the period	Number of options outstanding at 30.6.2017
Employees	25.9.2014	2.60	25.9.2015-24.9.2017	1,672,000	-	1,672,000
Employees	25.9.2014	2.60	25.9.2016-24.9.2017	1,672,000	-	1,672,000
				<u>3,344,000</u>	-	<u>3,344,000</u>

As at the date of this report, the outstanding number of shares of the Company available for issue which options had been granted under the Company's share option scheme was 3,344,000, representing approximately 0.54% of the existing issued share capital of the Company.

No option was granted by the Company under the share option scheme during the period.

As at the date of this Report, save as otherwise approved by shareholders of the Company, the maximum number of shares available for issue under options which may be granted is 22,870,072, representing approximately 3.7% of the number of existing issued shares of the Company.

(b) Equity-settled Pre-IPO share option scheme of Hi-Level Technology

On 4 January 2016, there were share options granted to directors or employees of the Group under the Pre-IPO share option scheme of Hi-Level Technology. The following tables disclose movements in the share options granted to the directors and employees of the Group under the Pre-IPO share option scheme during the period:

Grantees	Vesting Proportion	Vesting date	Exercisable period	Exercise price per share	No. of options	Options	Options	No. of options
					outstanding at 1.1.2017	lapsed during the period	exercised during the period	outstanding at 30.6.2017
Employees	50%	6.1.2017	7.1.2017-6.1.2019	HK\$0.31	9,475,000	(525,000)	(7,680,000)	1,270,000
Employees	50%	6.1.2018	7.1.2018-6.1.2019	HK\$0.31	9,475,000	(525,000)	-	8,950,000
Directors	50%	6.1.2017	7.1.2017-6.1.2019	HK\$0.31	3,500,000	-	(1,500,000)	2,000,000
Directors	50%	6.1.2018	7.1.2018-6.1.2019	HK\$0.31	3,500,000	-	-	3,500,000
					25,950,000	(1,050,000)	(9,180,000)	15,720,000

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 2017, 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 19 May 2017 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, internal control, risk management and the unaudited interim financial statements for the six months ended 30 June 2017.

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 2017.

APPRECIATION

On behalf of the Board of Directors, I would like to thank all our employees for their contribution and commitments. I also wish to extend my sincere gratitude to our shareholders, customers, suppliers and business partners for their long-term supports and dedication.

On behalf of the Board
S.A.S. Dragon Holdings Limited
Yim Yuk Lun, Stanley JP
Chairman and Managing Director

Hong Kong, 28 August 2017