



S.A.S. Dragon Holdings Limited

(Stock Code: 1184)



2018 INTERIM REPORT



This Interim Report is printed on environmentally friendly paper

CORPORATE INFORMATION

DIRECTORS

Executive Directors

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

Mr. Wong Sui Chuen

Mr. Yim Tsz Kit, Jacky

Mr. Wong Wai Tai

Independent Non-Executive Directors

Mr. Wong Tak Yuen, Adrian

Mr. Liu Chun Ning, Wilfred

Mr. Cheung Chi Kwan

Mr. Wong Wai Kin

AUDIT COMMITTEE

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

Mr. Cheung Chi Kwan

Mr. Wong Wai Kin

REMUNERATION COMMITTEE

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

Mr. Wong Sui Chuen

Mr. Wong Wai Kin

NOMINATION COMMITTEE

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

Mr. Wong Sui Chuen

Mr. Cheung Chi Kwan

COMPANY SECRETARY

Mr. Wong Wai Tai

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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

STOCK CODE

The Stock Exchange of Hong Kong Limited:

1184

FINANCIAL HIGHLIGHTS

	For the six months ended 30 June		Change
	2018 (Unaudited)	2017 (Unaudited)	
Revenue (HK\$'000)	13,008,736	7,401,948	+75.7%
Profit attributable to owners of the Company (HK\$'000)	146,074	120,867	+20.9%
Basic earnings per share (HK cents)	23.34	19.36	+20.6%
Interim dividend per share (HK cents)	5.00	4.80	+4.2%

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 2018, 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 2018

	Notes	For the six months ended 30 June	
		2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
Revenue	2	13,008,736	7,401,948
Cost of sales		(12,546,060)	(7,040,786)
Gross profit		462,676	361,162
Other income	4(b)	5,429	11,659
Other gains and losses, net	4(c)	14,908	25,438
Distribution and selling expenses		(48,880)	(56,545)
Administrative expenses		(159,675)	(146,634)
Share of profit of associates		5,069	5,215
Share of profit of joint ventures		140	184
Finance costs		(69,285)	(33,329)
Profit before tax		210,382	167,150
Income tax expense	3	(34,561)	(23,757)
Profit for the period	4(a)	175,821	143,393

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

For the six months ended 30 June 2018

	Notes	For the six months ended 30 June	
		2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
Other comprehensive income:			
Fair value gain on property, plant and equipment transferred to investment properties		—	10,493
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising on translation of foreign operations of subsidiaries		93	2,608
Reclassification adjustment on disposal of available-for-sale investment		—	(4,743)
Fair value gain on available-for-sale investments		—	(1,840)
Total comprehensive income for the period		175,914	149,911
Profit for the period attributable to:			
Owners of the Company		146,074	120,867
Non-controlling interests		29,747	22,526
		175,821	143,393
Total comprehensive income attributable to:			
Owners of the Company		146,168	126,914
Non-controlling interests		29,746	22,997
		175,914	149,911
Earnings per share (HK cents)	6		
— basic		HK23.34 cents	HK19.36 cents
— diluted		HK23.34 cents	HK19.36 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

	Note	30 June 2018 (Unaudited) HK\$'000	31 December 2017 (Audited) HK\$'000
Non-current Assets			
Investment properties		587,758	580,660
Property, plant and equipment		604,001	525,740
Intangible assets		3,816	4,389
Interests in associates		88,131	79,322
Investments in joint ventures		5,852	5,517
Financial assets at fair value through profit or loss		16,024	—
Available-for-sale investments		—	69,607
Club memberships		2,862	2,862
Finance lease receivables		49,823	48,960
Deferred tax assets		7,007	6,391
		1,365,274	1,323,448
Current Assets			
Inventories		1,404,786	1,232,929
Trade and other receivables	7	3,408,526	3,098,602
Finance lease receivables		17,493	24,150
Amount due from an associate		—	65
Derivative financial instruments		155	1,210
Financial assets at fair value through profit or loss		19,771	9,026
Taxation recoverable		365	365
Pledged bank deposits		30,232	13,819
Bank balances and cash		1,019,770	583,201
		5,901,098	4,963,367

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Continued)

As at 30 June 2018

	Note	30 June 2018 (Unaudited) HK\$'000	31 December 2017 (Audited) HK\$'000
Current Liabilities			
Trade and other payables	8	1,971,798	1,479,450
Bills payable	8	30,981	129,450
Amount due to an associate		14	7,634
Derivative financial instruments		1,160	1,448
Tax liabilities		59,615	38,024
Bank borrowings — due within one year		3,523,825	3,085,577
Other borrowings — due within one year		21,014	23,565
		5,608,407	4,765,148
Net Current Assets		292,691	198,219
Total assets less current liabilities		1,657,965	1,521,667
Non-current Liabilities			
Deferred tax liabilities		19,567	19,700
Other borrowings — due after one year		43,615	48,112
		63,182	67,812
Net Assets		1,594,783	1,453,855
Capital and Reserves			
Share capital		62,584	62,584
Share premium and reserves		1,400,145	1,253,978
Equity attributable to owners of the Company		1,462,729	1,316,562
Non-controlling interests		132,054	137,293
Total Equity		1,594,783	1,453,855

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018

	Attributable to owners of the Company												
	Share capital HK\$'000	Share premium HK\$'000	Capital redemption reserve HK\$'000	Capital reserve HK\$'000	Other reserve HK\$'000	Contributed surplus HK\$'000	Property revaluation reserve HK\$'000	Investment revaluation reserve HK\$'000	Transition reserve HK\$'000	Retained profit HK\$'000	Total interests HK\$'000	Non-controlling interests HK\$'000	Total HK\$'000
At 31 December 2017 (audited)	62,584	6,521	1,109	11,145	(10,236)	13,519	76,492	41,013	(738)	1,115,153	1,316,562	137,293	1,453,855
Adjustment (see note 1)	—	—	—	—	—	—	—	(41,013)	—	41,013	—	—	—
At 1 January 2018 (restated)	62,584	6,521	1,109	11,145	(10,236)	13,519	76,492	—	(738)	1,156,166	1,316,562	137,293	1,453,855
Profit for the period	—	—	—	—	—	—	—	—	—	146,074	146,074	29,747	175,821
Exchange differences arising on translation of foreign operations of subsidiaries	—	—	—	—	—	—	—	—	93	—	93	(1)	92
Total comprehensive income for the period	—	—	—	—	—	—	—	—	93	146,074	146,167	29,746	175,913
Capital contribution by non-controlling interests	—	—	—	—	—	—	—	—	—	—	—	1,315	1,315
Dividend paid to non-controlling shareholders	—	—	—	—	—	—	—	—	—	—	—	(36,300)	(36,300)
At 30 June 2018 (unaudited)	62,584	6,521	1,109	11,145	(10,236)	13,519	76,492	—	(645)	1,302,240	1,462,729	132,054	1,594,783

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

For the six months ended 30 June 2018

	Attributable to owners of the Company													
	Share capital	Share premium	Share redemption reserve	Capital reserve	Other reserve	Contributed surplus	Property revaluation reserve	Investment revaluation reserve	Transition reserve	Share option reserve	Retained profit	Total	Non-controlling interests	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	HK\$'000
At 1 January 2017	62,428	1,718	1,109	11,145	(102,236)	13,519	65,999	22,749	(35,901)	1,962	912,993	1,047,425	90,519	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	—	10,493
Fair value gain available-for-sale investments	—	—	—	—	—	—	—	(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	(102,236)	13,519	76,492	16,166	(33,763)	1,962	962,008	1,102,548	113,515	1,216,123

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS*For the six months ended 30 June 2018*

	For the six months ended	
	30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Net cash from (used in) operating activities	173,172	(1,224,397)
Net cash (used in) investing activities	(57,948)	(5,517)
Net cash from financing activities	320,485	1,150,207
Net increase (decrease) in cash and cash equivalents	435,709	(79,707)
Cash and cash equivalents at beginning of the period	583,201	606,185
Effect of foreign exchange rate changes	860	488
Cash and cash equivalents at end of the period, represented by bank balances and cash	1,019,770	526,966

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 financial instruments, which are measured at revalued amounts or fair values, as appropriate.

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards (“HKFRSs”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2018 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2017.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied for the first time, the following new amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2018 for the preparation of the Group’s condensed consolidated financial statements:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(Continued)***Application of new and amendments to HKFRSs** *(Continued)*

The new and amendments to HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments, the impacts on opening condensed consolidated statement of financial position arising from the application of all new standards are described as below:

1.1 Impacts and changes in accounting policies of application on HKFRS 15 “Revenue from Contracts with Customers”

The Group has applied HKFRS 15 for the first time in the current interim period. HKFRS 15 superseded Hong Kong Accounting Standards (“HKAS”) 18 “Revenue”, HKAS 11 “Construction Contracts” and the related interpretations.

The Group recognizes revenue from the following major sources:

- Distribution of electronic components and semiconductor products.
- Distribution of home appliances & business equipment and provision of related ancillary services
- Rental income from investment properties

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognized at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognized in the opening retained profits and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 “Revenue” and HKAS 11 “Construction Contracts” and the related interpretations.

The Group has performed an assessment on the impact of the adoption of HKFRS 15 and concluded that no material financial impact exists, and therefore no adjustment to the opening balance of equity at 1 January 2018 was recognised.

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(Continued)*

1.2 Impacts and changes in accounting policies on application of HKFRS 9 “Financial Instruments and the related amendments”

In the current period, the Group has applied HKFRS 9 Financial Instruments and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses (“ECL”) for financial assets and other items (for example, trade receivables) and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 Financial Instruments: Recognition and Measurement.

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(Continued)*

1.2 Impacts and changes in accounting policies on application of HKFRS 9 “Financial Instruments and the related amendments” *(Continued)*

1.2.1 Summary of effects arising from initial application of HKFRS 9

Available-for-sale investments (“AFS”)

From AFS to financial assets at fair value through profit or loss (“FVTPL”)

At the date of initial application of HKFRS 9, the Group’s investments of HK\$69,607,000 under non-current assets were reclassified from AFS to financial assets at FVTPL. The fair value gains of HK\$41,013,000 relating to those investments previously carried at fair value were transferred from investment revaluation reserve to retained profits.

The following table shows the adjustments recognized for each individual line item.

	31 December 2017	IFRS 9	1 January 2018
	HK\$’000	HK\$’000	HK\$’000
AFS	69,607	(69,607)	—
Financial assets at FVTPL	—	69,067	69,607
Investment revaluation reserve	(41,013)	41,013	—
Retained profits	(1,115,153)	(41,013)	(1,156,166)

2 REVENUE FROM GOODS AND SERVICES

(a) Disaggregation of revenue

	For the six months ended 30 June 2018			
	Distribution of electronic components and semiconductor products HK\$'000	Distribution of home appliances & business equipment and provision of related ancillary services HK\$'000	Rental income from investment properties HK\$'000	Total HK\$'000
Types of goods and services				
Sales of electronic components and semiconductors	12,800,651	—	—	12,800,651
Sales of LED lighting products	52,648	—	—	52,648
Rental income from LED lighting products	10,413	—	—	10,413
Sales of home appliances & business equipment and provision of related ancillary services	—	137,327	—	137,327
Rental income from investment properties	—	—	7,697	7,697
Total	12,863,712	137,327	7,697	13,008,736
Geographical markets				
Mainland China	8,132,748	416	4,339	8,137,503
Hong Kong	4,353,905	133,484	3,358	4,490,747
Taiwan	102,690	—	—	102,690
Others	274,369	3,427	—	277,796
Total	12,863,712	137,327	7,697	13,008,736
Timing of revenue recognition				
A point in time	12,853,299	137,327	—	12,990,626
Over time	10,413	—	7,697	18,110
Total	12,863,712	137,327	7,697	13,008,736

2 REVENUE FROM GOODS AND SERVICES (Continued)

(b) Segment information

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	
	2018	2017
	HK\$'000	HK\$'000
The PRC	8,137,503	5,656,448
Hong Kong	4,490,747	1,497,818
Taiwan	102,690	155,441
Others	277,796	92,241
	13,008,736	7,401,948

(c) Information about major customer

Revenue from customers individually contributing over 10% of the Group's revenue are as follows:

	For the six months ended	
	30 June	
	2018	2017
	HK\$'000	HK\$'000
Customer A	4,485,948	2,167,732
Customer B	2,552,985	—

3 INCOME TAX EXPENSE

	For the six months ended	
	30 June	
	2018	2017
	HK\$'000	HK\$'000
<hr/>		
The charge comprises:		
Hong Kong Profits Tax	28,616	20,814
Taiwan Corporate Income Tax	2,749	1,575
PRC Enterprise Income Tax	3,419	1,598
Deferred tax	(223)	(230)
	<hr/>	
	34,561	23,757
	<hr/>	

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 20% for the six months ended 30 June 2018 (six months ended 30 June 2017: 17%).

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	
	2018	2017
	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	64,303	59,944
— performance related incentive payments	16,302	15,595
— retirement benefits scheme contributions	7,546	6,227
	88,151	81,766
Depreciation of property, plant and equipment	7,738	7,232
Amortisation of intangible assets (included in administrative expenses)	573	716
Allowance of trade receivables, net	3,599	12,169
Cost of inventories recognized as an expense (including allowance of inventories of HK\$10,708,500 (2017: allowance of inventories of HK\$8,726,000))	12,546,060	7,040,786
Rental income from investment properties, net of outgoings	(7,697)	(7,138)

4 PROFIT FOR THE PERIOD (Continued)

	For the six months ended	
	30 June	
	2018	2017
	HK\$'000	HK\$'000
(b) Other income		
Dividend income from equity investments	(182)	(6,503)
Interest income	(229)	(214)
Interest income on finance leases	(4,116)	(6)
Others	(902)	(4,936)
	(5,429)	(11,659)
(c) Other gains and losses		
Net loss (gain) on fair value change of derivative financial instruments	767	(19,170)
Gain on disposal of available-for-sale investments	(11,904)	(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	2,777	(259)
Gain on disposal of property, plant and equipment	(800)	(50)
Net foreign exchange (gain) loss	(5,748)	1,069
	(14,908)	(25,438)

5 DIVIDEND PAID

For the six months ended

30 June

2018	2017
HK\$'000	HK\$'000

Final and special dividend paid during the period in respect of previous financial year: Nil (2017: final and special dividend paid during the period in respect of the previous financial year of HK6.5 cents and HK5.0 cents) per share respectively

—	71,792
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The final dividend of HK15.2 cents per share amounting to HK\$95,127,291 for the financial year ended 31 December 2017 was approved on 5 June 2018 and paid on 6 July 2018.

6 EARNINGS PER SHARE

The calculation of the basic earnings per share for the six months ended 30 June 2018 is based on the profit for the period attributable to owners of the Company of approximately HK\$146,074,000 (2017: HK\$120,867,000) and on the weighted average number of 625,837,440 (2017: 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 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 2018 HK\$'000	31 December 2017 HK\$'000
Current	2,712,104	2,497,441
Within 30 days	358,055	407,235
More than 30 days and within 60 days	65,584	42,754
More than 60 days and within 90 days	54,857	7,778
More than 90 days	41,742	18,329
Trade receivables and bills receivable	3,232,342	2,973,537
Other receivables	176,184	125,065
	3,408,526	3,098,602

During the period under review, the Group's five largest customers accounted for 62% (31 December 2017: 51%) 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 2018 HK\$'000	31 December 2017 HK\$'000
Current	592,888	1,246,885
Within 30 days	1,071,810	149,540
More than 30 days and within 60 days	18,631	19,416
More than 60 days and within 90 days	11,884	11,961
More than 90 days	82,058	30,523
Trade payables and bills payable	1,777,271	1,458,325
Other payables	225,508	150,575
	2,002,779	1,608,900

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	
		2018 HK\$'000	2017 HK\$'000
Hon Hai Precision Industry Co Ltd ("Hon Hai") (note) and its subsidiaries	Sales of electronic products by the Group	1,961,770	1,184,035
	Purchases of electronic products by the Group	595,229	623,373
	Rental income received by the Group	4,800	—
	Rental expense paid by the Group	2,064	5,584
	Reimbursement of warranty services provided by the Group	766	1,345

9 CONNECTED PARTY TRANSACTIONS AND BALANCES (Continued)

Connected parties (Continued)

(b) Balances

Name of party	Nature of balances	30 June	31 December
		2018	2017
		HK\$'000	HK\$'000
Hon Hai and its subsidiaries	Trade receivables	1,357,190	1,306,640
	Trade payables	183,575	334,297

Note: Hon Hai is a substantial shareholder of the Company, who held 19.81% of the issued share capital of the Company as at 30 June 2018.

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;

9 **CONNECTED PARTY TRANSACTIONS AND BALANCES** *(Continued)*

Connected parties *(Continued)*

(b) Balances *(Continued)*

- (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 HK5.0 cents (2017: HK4.8 cents) per share payable to the shareholders of the Company whose names appear on the register of members of the Company on 4 October 2018. The dividend warrants are expected to despatch to shareholders on or about 12 October 2018.

CLOSURE OF REGISTERS OF MEMBERS

The register of members of the Company will be closed from 2 October 2018 to 4 October 2018, 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 28 September 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Distribution of Electronic Components and Semiconductor Products

During the period under review, the overall handset market is more saturated and there is a year-on-year decline in handset shipment. However, the smartphone market is still growing driven by continuous upgrade of specification. Being benefited from robust demand from our PRC branded smartphone customers, the Group's component team recorded strong sales of DRAM and NAND flash memory chips, MCP solutions and small and medium-size LCD panels and delivered satisfactory results for the six months ended 30 June 2018 and achieved record revenue of HK\$12.9 billion, increased by 77% from HK\$7.3 billion recorded in same period in 2017.

Green value engineering (GVE)

After the Group tapped into the digital display market in 2017, the Group's GVE team has successfully completed a lot of sizable indoor and outdoor projects with total over 5,000 square meters of customized LED display solutions installed for property owners and operators in Hong Kong and a number of countries along the Belt and Road routes under owned brands of  and  during the period under review.

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

During the period under review, the sales of SHARP's newly launched AQUOS 8K TV featuring high resolution, high contrast and high color saturation has been ramping up and exceeded expectation. Also, the Group's B2B team recorded satisfactory sales growth of SHARP's professional panels, such as video wall display and interactive touch panel, as well as SMART's educational panels to schools, hotels, hospitals and several government departments.

Properties investment

As at 30 June 2018, the Group carried 13 units of investment properties (31 December 2017: 13 units) for commercial and industrial uses in Hong Kong and China. The aggregate carrying value of investment properties amounted to HK\$588 million (31 December 2017: HK\$581 million). During the period under review, the above investment properties altogether generated rental income of HK\$7.7 million (2017: HK\$7.1 million) with an annualized return of 2.6% (2017: 2.8%).

OUTLOOK

Many countries, such as the US, China, Japan and Europe, have set AI development as a national strategy. We expect AI development will be accelerated with the maturing of high-speed 5G networks and AI-enabled mobile devices and IoT-driven technology for application on mobile communication, automotive electronic and industrial electronic will deliver solid market demand of our memory chip, smart display panel and other IoT solutions.

Up to now the direct impact of tariff increase on smartphone supply chain associated with the US-China trade war is limited but we expect some customers focusing on export business of consumer electronic products will be affected. We will actively control risks and seek effective measures to cushion any possible negative impacts and are conservatively positive in our business development in 2018.

By leveraging on Hon Hai Group and SHARP Corporation's leading position in electronic component to consumer electronic regimes and our over 37 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 six months period ended 30 June 2018, the Group achieved another satisfactory growth rate of 76% in revenue to HK\$13,008,736,000 mainly due to the satisfactory performance of our existing and several new product lines and an increase in average selling prices ("ASP") of key electronic components. Gross profit was HK\$462,676,000, increased by 28% from HK\$361,162,000 recorded in same period last year. Due to the surge of ASP of key electronic components, gross profit margin reduced to 3.6% from 4.9% recorded in same period last year. Net profit for the period was HK\$146,074,000, increased by 21% compared with HK\$120,867,000 recorded in same period last year. Basic earnings per share for the period was HK23.34 cents (2017: HK19.36 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 2018, the Group's current ratio was 105% (31 December 2017: 104%). The Group's net gearing ratio was 157% (31 December 2017: 175%), 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\$2,502,657,000 (31 December 2017: HK\$2,551,208,000) over total equity of HK\$1,594,783,000 (31 December 2017: HK\$1,453,855,000). The decrease of net gearing ratio was mainly due to improvement of working capital efficiency.

The Group recorded debtors turnover of 45 days for the period under review (2017: 54 days) based on the amount of trade and bills receivable as at 30 June 2018 divided by sales for the same period and multiplied by 181 days (2017: 181 days).

The Group recorded inventory turnover and average payable period of 20 days and 26 days respectively for the period under review (2017: 49 days and 29 days respectively) based on the amount of inventory and trade and bills payables as at 30 June 2018, divided by cost of sales for the same period and multiplied by 181 days (2017: 181 days).

During the six months period ended 30 June 2018, the Group recorded net operating cash inflow of HK\$173,172,000 compared with net operating cash outflow of HK\$1,224,397,000 in same period last year.

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\$86 million, which was mainly used in the construction of the new 20-storey "SAS Tower" for the Group's headquarter office and warehouse center located at Kwai Chung of 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 short-term foreign currency forward contracts to hedge the currency risk related to its payable denominated in foreign currencies.

Pledge of Assets

As at 30 June 2018, certain of the Group's assets (including investment properties, leasehold land and building, bank deposits, factored trade receivables and financial assets at fair value through profit or loss) with the carrying value of totaling approximately HK\$679 million were pledged to banks to secure general banking facilities granted to the Group.

Employee and Remuneration Policy

At 30 June 2018, the Group employed approximately 680 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 2018, 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 <i>BBS JP</i>	Beneficial owner	73,990,000	11.82%
	Held by controlled corporation (<i>Note 1</i>)	227,542,800	36.36%
		301,532,800	48.18%
Wong Sui Chuen	Beneficial owner	1,824,000	0.29%

(b) Ordinary shares of HK\$0.01 each of Hi-Level Technology Holdings Limited (“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>BBS JP</i>	Beneficial owner (<i>Note 2</i>)	32,272,861	4.98%
	Held by controlled corporation (<i>Note 2</i>)	211,963,000	32.68%
		244,235,861	37.66%
Wong Wai Tai	Beneficial owner	2,000,000	0.31%
Wong Sui Chuen	Beneficial owner	1,331,328	0.21%
Yim Tsz Kit, Jacky	Beneficial owner	300,000	0.05%

Notes:

- 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 *BBS JP*.
- Mr. Yim Yuk Lun, Stanley *BBS JP* beneficially owns 32,272,861 Hi-Level shares and is the controlling shareholder of the Company; he is therefore under the SFO deemed to be interested in 211,963,000 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 2018.

SUBSTANTIAL SHAREHOLDERS

At 30 June 2018, 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	19.81%
Foxconn Holding Limited (“Foxconn”)	Beneficial owner	124,000,000	19.81%

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 2018.

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 2017 Annual Report. During the period under review, Dr. Lui Ming Wah *SBS JP* has ceased to be the independent non-executive director and a member of the audit and remuneration committee of the Company upon his retirement from the Board at the conclusion of the annual general meeting on 5 June 2018.

SHARE OPTION SCHEME

(a) Share option scheme of the Company

The Company has not granted or issued any share option up to 30 June 2018.

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 24,658,072, representing approximately 3.9% of the number of existing issued shares of the Company.

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

On 4 January 2017, there were share options granted to directors or employees of the Group under the Pre-IPO share option scheme of Hi-Level Technology Holdings Limited. 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 outstanding at 1.1.2018	Options exercised during the period	No. of options outstanding at 30.6.2018
Employees	50%	6.1.2017	7.1.2017–6.1.2019	HK\$0.31	1,195,000	(240,000)	955,000
Employees	50%	6.1.2018	7.1.2018–6.1.2019	HK\$0.31	8,825,000	(6,700,000)	2,125,000
Directors	50%	6.1.2017	7.1.2017–6.1.2019	HK\$0.31	—	—	—
Directors	50%	6.1.2018	7.1.2018–6.1.2019	HK\$0.31	3,500,000	—	3,500,000
					13,520,000	(6,940,000)	6,580,000

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 2018, 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 be 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 *BBS 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, one independent non-executive director of the Company was unable to attend the annual general meeting of the Company held on 5 June 2018 due to his 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 2018.

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 2018.

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 *BBS JP*
Chairman and Managing Director

Hong Kong, 27 August 2018