



S.A.S. Dragon Holdings Limited

(Stock Code: 1184)

2019 Interim Report

**SAS
GROUP**



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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REGISTERED OFFICE

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PRINCIPAL OFFICE

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SHARE REGISTRARS AND TRANSFER OFFICE

Tricor Secretaries Limited
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Hong Kong

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
DBS Bank (Hong Kong) Limited
Hang Seng Bank Limited
Mizuho Bank Limited
Standard Chartered Bank
(Hong Kong) Limited
The Hongkong and Shanghai Banking
Corporation 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
	2019 (Unaudited)	2018 (Unaudited)	
Revenue (HK\$'000)	8,350,449	13,008,736	-35.8%
Profit attributable to owners of the Company (HK\$'000)	103,515	146,074	-29.1%
Basic earnings per share (HK cents)	16.54	23.34	-29.1%
Interim dividend per share (HK cents)	4.00	5.00	-20.0%

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 2019, 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 2019

		For the six months ended 30 June	
		2019	2018
		(Unaudited)	(Unaudited)
	Notes	HK\$'000	HK\$'000
Revenue	2	8,350,449	13,008,736
Cost of sales		(7,933,939)	(12,546,060)
Gross profit		416,510	462,676
Other income	4(b)	7,271	5,429
Other gains and losses, net	4(c)	1,488	14,908
Distribution and selling expenses		(52,269)	(48,880)
Administrative expenses		(139,710)	(159,675)
Share of profit of associates		4,137	5,069
Share of profit of a joint venture		171	140
Finance costs		(67,209)	(69,285)
Profit before tax		170,389	210,382
Income tax expense	3	(31,388)	(34,561)
Profit for the period	4(a)	139,001	175,821

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

For the six months ended 30 June 2019

	Notes	For the six months ended 30 June	
		2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
Other comprehensive (loss) income: <i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising on translation of foreign operations of subsidiaries		(26)	93
Total comprehensive income for the period		138,975	175,914
Profit for the period attributable to:			
Owners of the Company		103,515	146,074
Non-controlling interests		35,486	29,747
		139,001	175,821
Total comprehensive income attributable to:			
Owners of the Company		103,489	146,168
Non-controlling interests		35,486	29,746
		138,975	175,914
Earnings per share (HK cents)			
— basic and diluted	6	HK16.54 cents	HK23.34 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

	30 June 2019 (Unaudited) HK\$'000	31 December 2018 (Audited) HK\$'000
<i>Note</i>		
Non-current Assets		
Investment properties	738,270	738,270
Property, plant and equipment	692,549	707,874
Intangible assets	2,664	3,237
Right-of-use assets	11,389	—
Interests in associates	83,099	78,961
Interest in a joint venture	5,977	5,806
Financial assets at fair value through profit or loss	3,197	3,197
Club memberships	4,829	2,862
Finance lease receivables	59,340	55,883
Deferred tax assets	7,613	7,467
	1,608,927	1,603,557
Current Assets		
Inventories	850,104	1,589,318
Trade and other receivables	1,045,329	1,742,784
Trade receivables at fair value through other comprehensive income	1,076,623	660,239
Finance lease receivables	29,744	26,694
Amount due from an associate	126	32
Derivative financial instruments	979	704
Financial assets at fair value through profit or loss	16,809	15,113
Taxation recoverable	7,702	4,383
Pledged bank deposits	26,617	32,972
Bank balances and cash	1,006,574	932,640
	4,060,607	5,004,879

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION*(Continued)*

As at 30 June 2019

	Note	30 June 2019 (Unaudited) HK\$'000	31 December 2018 (Audited) HK\$'000
Current Liabilities			
Trade and other payables	8	1,066,678	1,740,346
Bills payable	8	42,122	9,216
Contract liabilities		26,756	61,969
Lease liabilities — due within one year		7,616	—
Derivative financial instruments		7,056	499
Tax liabilities		46,782	43,488
Bank borrowings — due within one year		2,289,694	2,687,644
Other borrowings — due within one year		28,629	25,519
		3,515,333	4,568,681
Net Current Assets		545,274	436,198
Total Assets Less Current Liabilities		2,154,201	2,039,755
Non-current Liabilities			
Deferred tax liabilities		38,425	39,239
Lease liabilities — due after one year		4,072	—
Bank borrowings — due after one year		250,745	256,080
Other borrowings — due after one year		57,914	54,093
		351,156	349,412
Net Assets		1,803,045	1,690,343
Capital and Reserves			
Share capital		62,584	62,584
Share premium and reserves		1,573,390	1,471,421
Equity attributable to owners of the Company		1,635,974	1,534,005
Non-controlling interests		167,071	156,338
Total Equity		1,803,045	1,690,343

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

	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	Translation reserve HK\$'000	Retained profit HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total HK\$'000
At 31 December 2018 (audited)	62,584	6,521	1,109	11,145	(10,236)	13,519	141,214	(21,092)	1,329,241	1,534,005	156,338	1,690,343
Profit for the period	—	—	—	—	—	—	—	—	103,515	103,515	35,486	139,001
Exchange differences arising on translation of foreign operations of subsidiaries	—	—	—	—	—	—	—	(26)	—	(26)	—	(26)
Total comprehensive income for the period	—	—	—	—	—	—	—	(26)	103,515	103,489	35,486	138,975
Acquisition of non-controlling interests	—	—	—	—	—	—	—	—	—	—	(2,273)	(2,273)
Reserve on acquisition of non-controlling interests	—	—	—	—	(1,520)	—	—	—	—	(1,520)	1,520	—
Dividend paid to non-controlling shareholders	—	—	—	—	—	—	—	—	—	—	(24,000)	(24,000)
At 30 June 2019 (unaudited)	62,584	6,521	1,109	11,145	(11,756)	13,519	141,214	(21,118)	1,432,756	1,635,974	167,071	1,803,045

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

For the six months ended 30 June 2019

	Attributable to owners of the Company												
	Share capital HK\$'000	Share premium HK\$'000	Capital redemption reserves HK\$'000	Capital reserve HK\$'000	Other reserve HK\$'000	Contributed surplus HK\$'000	Property revaluation reserves HK\$'000	Investment revaluation reserves HK\$'000	Transition reserve HK\$'000	Retained profit HK\$'000	Total 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	—	—	—	—	—	—	—	(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 CASH FLOWS

For the six months ended 30 June 2019

	For the six months ended 30 June	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
Net cash from operating activities	544,454	173,172
Net cash from (used in) investing activities	14,314	(57,948)
Net cash (used in) from financing activities	(484,834)	320,485
Net increase in cash and cash equivalents	73,934	435,709
Cash and cash equivalents at beginning of the period	932,640	583,201
Effect of foreign exchange rate changes	—	860
Cash and cash equivalents at end of the period, represented by bank balances and cash	1,006,574	1,019,770

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 2019 are the same as those presented in the Group’s annual financial statements for the year ended 31 December 2018.

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA for which are mandatory effective for the annual period beginning on or after 1 January 2019 for the preparation of the Group’s condensed consolidated financial statements:

HKFRS 16	<i>Leases</i>
HK(IFRIC)-Int 23	<i>Uncertainty over Income Tax Treatments</i>
Amendments to HKFRS 9	<i>Prepayment Features with Negative Compensation</i>
Amendments to HKAS 19	<i>Plan Amendment, Curtailment or Settlement</i>
Amendments to HKAS 28	<i>Long-term Interests in Associates and Joint Ventures</i>
Amendments to HKFRSs	<i>Annual Improvements to HKFRSs 2015–2017 Cycle</i>

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.

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

Except as described below, the application of the new and amendments to HKFRSs in the current period has had no material impact on the Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

1.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases

The Group has applied HKFRS 16 for the first time in the current interim period. HKFRS 16 superseded HKAS 17 *Leases* ("HKAS 17"), and the related interpretations.

1.1.1 Key changes in accounting policies resulting from application of HKFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of HKFRS 16.

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(Continued)***1.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases** *(Continued)***1.1.1 Key changes in accounting policies resulting from application of HKFRS 16** *(Continued)***Right-of-use assets** *(Continued)*

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

Lease liabilities

At the commencement date of a lease, the Group recognizes and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

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

1.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases *(Continued)*

1.1.1 Key changes in accounting policies resulting from application of HKFRS 16 *(Continued)*

Lease liabilities *(Continued)*

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review/expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

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

1.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases *(Continued)*

1.1.2 Transition and summary of effects arising from initial application of HKFRS 16

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease* and not apply these standards to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

- i. relied on the assessment of whether leases are onerous by applying HKAS 37 Provisions, Contingent Liabilities and Contingent Assets as an alternative of impairment review;
- ii. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;

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

1.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases *(Continued)*

1.1.2 Transition and summary of effects arising from initial application of HKFRS 16 *(Continued)*

As a lessee *(Continued)*

- iii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application;
- iv. applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment; and
- v. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

The following adjustments were made to the amounts recognized in the condensed consolidated statement of financial position as at 1 January 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2018		Carrying amounts under HKFRS 16 at 1 January 2019
	HK\$'000	Adjustments HK\$'000	HK\$'000
Non-current Assets			
Right-of-use assets	—	9,428	9,428
Current Liabilities			
Lease liabilities	—	(3,985)	(3,985)
Non-current Liabilities			
Lease liabilities	—	(5,443)	(5,443)

2 REVENUE

(a) Disaggregation of revenue from contracts with customers

	For the six months ended 30 June 2019 HK\$'000	For the six months ended 30 June 2018 HK\$'000
Types of goods and services		
<i>Sales of goods</i>		
Sales of electronic components and semiconductors	8,134,614	12,800,651
Sales of home appliances & business equipment	81,628	98,945
Sales of LED lighting products	48,253	23,021
	8,264,495	12,922,617
Contract works of LED screen	36,066	29,627
Provision of related ancillary services of distribution of home appliances & business equipment	21,306	23,037
Revenue from contracts with customers	8,321,867	12,975,281
<i>Income from leasing activities</i>		
Finance lease of home appliances & business equipment	14,501	15,345
Rental income from investment properties	8,806	7,697
Rental income from LED lighting products	5,275	10,413
	28,582	33,455
Total revenue	8,350,449	13,008,736
Timing of revenue recognition		
A point in time	8,285,801	12,945,654
Over time	36,066	29,627
Revenue from contracts with customers	8,321,867	12,975,281
Finance lease of home appliances & business equipment	14,501	15,345
Rental income from investment properties	8,806	7,697
Rental income from LED lighting products	5,275	10,413
Total revenue	8,350,449	13,008,736

2 REVENUE (Continued)

(a) Disaggregation of revenue from contracts with customers (Continued)

Geographical markets

Segments	For the six months ended 30 June 2019					Total HK\$'000
	Sales of electronic components and semiconductors	Sales of home appliances & business equipment	Sales of LED lighting products	Contract works of LED screen	Provision of related ancillary services of distribution of home appliances & business equipment	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Hong Kong	5,667,370	77,923	2,173	20,697	21,223	5,789,386
Mainland China	1,986,192	148	27,747	—	83	2,014,170
Taiwan	169,948	—	9	—	—	169,957
Others	311,104	3,557	18,324	15,369	—	348,354
Revenue from contracts with customers	8,134,614	81,628	48,253	36,066	21,306	8,321,867
Finance lease of home appliances & business equipment						14,501
Rental income from investment properties						8,806
Rental income from LED lighting products						5,275
Total revenue						8,350,449

2 REVENUE (Continued)

(a) Disaggregation of revenue from contracts with customers (Continued)

Geographical markets (Continued)

Segments	For the six months ended 30 June 2018					Total HK\$'000
	Sales of electronic components and semiconductors HK\$'000	Sales of home appliances & business equipment HK\$'000	Sales of LED lighting products HK\$'000	Contract works of LED screen HK\$'000	Provision of related ancillary services of distribution of home appliances & business equipment HK\$'000	
	Hong Kong	4,312,365	95,310	2,253	15,239	
Mainland China	8,116,935	206	15,262	–	209	8,132,612
Taiwan	102,690	–	3	–	–	102,693
Others	268,661	3,429	5,503	14,388	–	291,981
Revenue from contracts with customers	12,800,651	98,945	23,021	29,627	23,037	12,975,281
Finance lease of home appliances & business equipment						15,345
Rental income from investment properties						7,697
Rental income from LED lighting products						10,413
Total revenue						<u>13,008,736</u>

2 REVENUE (Continued)

(b) Information about major customer

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

	For the six months ended 30 June	
	2019 HK\$'000	2018 HK\$'000
Customer A	4,648,607	7,038,933

3 INCOME TAX EXPENSE

	For the six months ended 30 June	
	2019 HK\$'000	2018 HK\$'000
The charge comprises:		
Hong Kong Profits Tax	26,629	28,616
Taiwan Corporate Income Tax	5,693	2,749
PRC Enterprise Income Tax	27	3,419
Deferred tax	(961)	(223)
	31,388	34,561

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 2019 (six months ended 30 June 2018: 20%).

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

Profit for the period has been arrived at after charging (crediting):

	For the six months ended 30 June	
	2019 HK\$'000	2018 HK\$'000
(a) Profit for the period		
Staff costs, including directors' remunerations		
— salaries and other benefits	62,569	64,303
— performance related incentive payments	5,887	16,302
— retirement benefits scheme contributions	6,957	7,546
	75,413	88,151
Depreciation of property, plant and equipment	19,892	7,738
Depreciation of right-of-use assets	3,808	—
Amortisation of intangible assets (included in administrative expenses)	573	573
(Reversal) Allowance of trade receivables, net	(1,907)	3,599
Cost of inventories recognized as an expense (including allowance of inventories of HK\$7,758,900 (2018: allowance of inventories of HK\$10,708,500))	7,933,939	12,546,060
(b) Other income		
Interest income on finance leases	(4,327)	(4,116)
Interest income	(1,206)	(229)
Dividend income from equity investments	(195)	(182)
Others	(1,543)	(902)
	(7,271)	(5,429)
(c) Other gains and losses		
Net foreign exchange gain	(6,074)	(5,748)
Change in fair value of financial assets at fair value through profit or loss	(1,697)	2,777
Net loss on fair value change of derivative financial instruments	6,283	767
Gain on disposal of available-for-sale investments	—	(11,904)
Gain on disposal of property, plant and equipment	—	(800)
	(1,488)	(14,908)

5 DIVIDEND PAID

The final dividend of HK16.0 cents per share amounting to HK\$100,133,990 for the financial year ended 31 December 2018 was approved on 20 May 2019 and paid on 5 July 2019.

6 EARNINGS PER SHARE

The calculation of the basic earnings per share for the six months ended 30 June 2019 is based on the profit for the period attributable to owners of the Company of HK\$103,515,000 (2018: HK\$146,074,000) and on the weighted average number of 625,837,440 (2018: 625,837,440) ordinary shares in issued during the period.

7(a) TRADE AND OTHER RECEIVABLES AND BILLS RECEIVABLE

	30 June 2019 HK\$'000	31 December 2018 HK\$'000
Trade receivables at amortised cost	972,678	1,697,286
Less: allowance for credit losses	(18,274)	(35,765)
	954,404	1,661,521
Other receivables	35,880	39,481
Prepayment and deposits paid	55,045	41,782
Total trade and other receivables	<u>1,045,329</u>	<u>1,742,784</u>

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

7(a) TRADE AND OTHER RECEIVABLES AND BILLS RECEIVABLE (Continued)

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

	30 June 2019 HK\$'000	31 December 2018 HK\$'000
Current	626,124	1,158,185
Within 30 days	142,817	271,112
More than 30 days and within 60 days	76,101	154,465
More than 60 days and within 90 days	11,852	40,426
More than 90 days	97,510	37,333
Trade receivables and bills receivable	954,404	1,661,521
Other receivables	90,925	81,263
	1,045,329	1,742,784

During the period under review, the Group's five largest customers accounted for 65% (31 December 2018: 63%) 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.

7(b) TRADE RECEIVABLES AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	30 June 2019 HK\$'000	31 December 2018 HK\$'000
Trade receivables held for collecting contractual cash flows or factoring to banks	1,076,623	660,239

8 TRADE AND OTHER PAYABLES AND BILLS PAYABLE

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

	30 June 2019 HK\$'000	31 December 2018 HK\$'000
Current	748,561	587,075
Within 30 days	101,210	920,583
More than 30 days and within 60 days	31,456	41,237
More than 60 days and within 90 days	21,204	9,033
More than 90 days	57,862	47,891
Trade payables and bills payable	960,293	1,605,819
Other payables	148,507	143,743
	1,108,800	1,749,562

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK4.0 cents (2018: HK5.0 cents) per share payable to the shareholders of the Company whose names appear on the register of members of the Company on 4 October 2019. The dividend warrants are expected to despatch to shareholders on or about 16 October 2019.

CLOSURE OF REGISTERS OF MEMBERS

The register of members of the Company will be closed from 2 October 2019 to 4 October 2019, 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on 30 September 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Sales of electronic components and semiconductors

The Group is a global leading electronic supply chain services provider with more than 38 years of history. During the period under review, although direct impact of tariff increase on smart phone supply chain is limited, the market sentiment was hurt. The Group's component team recorded revenue of HK\$8.1 billion, decreased by 36.7% from HK\$12.8 billion recorded in same period of 2018.

Amid difficult business conditions, even overall demand is weak, we worked closely with customers and delivered competitive solutions such as high-storage and high-performance storage memory, multiple smartphone camera with ultra-high pixel and high magnification optical zoom, thinner and lighter UHD LTPS panels, high-speed and wireless charging and other innovative solutions.

Sales of LED lighting products and contract works of LED screen

Our LED lighting B2B team achieved solid sustainable results by capturing of new business opportunities of the development of Belt and Road countries, namely India, Indonesia, Malaysia, The Philippines, Sri Lanka, Thailand and Vietnam, under owned brands of



and



during the period under review.

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

During the period under review, Hong Kong domestic market is susceptible to global economy slowdown and retail sales performance of our SHARP products is not satisfactory. In such challenging operating environment, we launched new series of smart TVs and kitchen appliances and received positive market response. Also, we invested more on online media promotion and broadened product range selling exclusively on our digital platform (www.sharp.com.hk) and mobile shopping app  (sassharp) to fulfill our customers' online experiences.



Rental income from investment properties

As at 30 June 2019, the Group carried 17 units of investment properties (31 December 2018: 17 units) for commercial and industrial uses in Hong Kong and China. The aggregate carrying value of investment properties amounted to HK\$738 million (31 December 2018: HK\$738 million). During the period under review, the above investment properties altogether generated rental income of HK\$8.8 million (2018: HK\$7.7 million) with an annualized return of 2.4% (2018: 2.6%).

OUTLOOK

Due to both economic market and handset market showing signs of slowing down, global smartphone shipment is expected to drop in 2019 and has been continuously slowing down since 2018. However, 5G technology has officially started to be implemented for commercial use in mainland China, we expected 5G high transmission speed connectivity will bring forward a new smartphone replacement cycle by end of 2019 and it will boost solid market demand of our new generation memory chip, smart display panel and other IoT solutions. Also, we expect demand to grow rapidly in newly emerging area such as automotive, security control and datacenter applications.

The Group will closely monitor the progress of the trade war and the resulting impact and devise counter measures if necessary. By leveraging on Hon Hai Group and SHARP Corporation's leading position in electronic component to consumer electronic regimes and our over 38 years of experience, large customer base, 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

During the period under review, the semiconductor market is negatively impacted by the softened GDP growth of mainland China together with multiple uncertainties on trade wars, protectionism and custom duty hikes. The Group recorded HK\$8,350,449,000 in revenue for the six month period ended 30 June 2019 decreased by 35.8% from HK\$13,008,736,000 recorded in same period last year. Gross profit was HK\$416,510,000, decreased by 10.0% from HK\$462,676,000 recorded in same period last year. Gross profit margin increased to 5.0% from 3.6% recorded in same period last year. Net profit for the period was HK\$103,515,000 decreased by 29.1% from HK\$146,074,000 recorded in same period last year. Basic earnings per share for the period was HK16.54 cents (2018: HK23.34 cents).

Liquidity, Financial Resources and Capital Structure

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 2019, the Group's current ratio was 116% (31 December 2018: 110%). The Group's net gearing ratio was 87% (31 December 2018: 121%), 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\$1,573,785,000 (31 December 2018: HK\$2,039,414,000) over total equity of HK\$1,803,045,000 (31 December 2018: HK\$1,690,343,000). The decrease of net gearing ratio was mainly due to improvement of working capital efficiency.

The Group recorded debtors turnover of 21 days for the period under review (2018: 45 days) based on the amount of trade and bills receivable as at 30 June 2019 divided by sales for the same period and multiplied by 181 days (2018: 181 days).

The Group recorded inventory turnover and average payable period of 19 days and 22 days respectively for the period under review (2018: 20 days and 26 days respectively) based on the amount of inventory and trade and bills payables as at 30 June 2019, divided by cost of sales for the same period and multiplied by 181 days (2018: 181 days).

During the six months period ended 30 June 2019, the Group recorded net operating cash inflow of HK\$544,454,000 compared with net operating cash inflow of HK\$173,172,000 in same period last year.

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 2019, 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\$524 million were pledged to banks to secure general banking facilities granted to the Group.

Employee and Remuneration Policy

At 30 June 2019, the Group employed approximately 600 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 2019, 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 Held by controlled corporation (<i>Note 1</i>)	83,710,000	13.37%
		227,542,800	36.36%
		311,252,800	49.73%
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>) Held by controlled corporation (<i>Note 2</i>)	32,722,861	5.01%
		211,963,000	32.47%
		244,685,861	37.48%
Wong Wai Tai	Beneficial owner	3,300,000	0.51%
Wong Sui Chuen	Beneficial owner	2,531,328	0.39%
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 32,722,861 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 2019.

SUBSTANTIAL SHAREHOLDERS

At 30 June 2019, 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 Precision Industry Co. Ltd ("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 2019.

SHARE OPTION SCHEME

(a) Share option scheme of the Company

The Company has not granted or issued any share option up to 30 June 2019.

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 2016, 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 1.1.2019	Options exercised during the period	No. of options lapsed during the period	No. of option outstanding at 30.6.2019
Employees	50%	6.1.2017	7.1.2017-6.1.2019	HK\$0.31	900,000	(100,000)	(800,000)	—
Employees	50%	6.1.2018	7.1.2018-6.1.2019	HK\$0.31	1,650,000	(800,000)	(850,000)	—
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	2,300,000	(1,300,000)	(1,000,000)	—
					<u>4,850,000</u>	<u>(2,200,000)</u>	<u>(2,650,000)</u>	<u>—</u>

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 2019, 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 20 May 2019 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 2019.

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 2019.

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, 26 August 2019