



S.A.S. Dragon Holdings Limited

(Incorporated in Bermuda with limited liability)
(Stock Code: 1184)

INTERIM REPORT 2020

S.A.S.



This Interim Report is printed on environmentally friendly paper

CORPORATE INFORMATION

DIRECTORS

Executive Directors

Dr. 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

WEBSITE

www.sasdragon.com.hk

REGISTERED OFFICE

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Hamilton HM11

Bermuda

PRINCIPAL OFFICE

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55 Lei Muk Road

Kwai Chung, N.T.

Hong Kong

SHARE REGISTRARS AND TRANSFER OFFICE

Tricor Secretaries Limited

Level 54, Hopewell Centre

183 Queen's Road East

Hong Kong

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited

BNP Paribas

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
	2020 (Unaudited)	2019 (Unaudited)	
Revenue (HK\$'000)	8,350,516	8,350,449	–
Profit attributable to owners of the Company (HK\$'000)	130,377	103,515	+25.9%
Basic earnings per share (HK cents)	20.83	16.54	+25.9%
Interim dividend per share (HK cents)	4.50	4.00	+12.5%

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 2020, 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 2020

		For the six months ended	
		30 June	
		2020	2019
		(Unaudited)	(Unaudited)
	Notes	HK\$'000	HK\$'000
Revenue	2	8,350,516	8,350,449
Cost of sales		(7,950,026)	(7,933,939)
Gross profit		400,490	416,510
Other income	4(b)	9,729	7,271
Other gains and losses, net	4(c)	4,798	1,488
Reversal of impairment losses, net		32	1,907
Distribution and selling expenses		(27,671)	(52,269)
Administrative expenses		(143,609)	(141,617)
Share of profit of associates		3,789	4,137
Share of profit of a joint venture		119	171
Finance costs		(43,233)	(67,209)
Profit before tax		204,444	170,389
Income tax expense	3	(33,509)	(31,388)
Profit for the period	4(a)	170,935	139,001

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

For the six months ended 30 June 2020

	For the six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
Note	HK\$'000	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)
Total comprehensive income for the period	170,935	138,975
Profit for the period attributable to:		
Owners of the Company	130,377	103,515
Non-controlling interests	40,558	35,486
	170,935	139,001
Total comprehensive income attributable to:		
Owners of the Company	130,377	103,489
Non-controlling interests	40,558	35,486
	170,935	138,975
Earnings per share (HK cents)		
– basic and diluted	6	6
	HK20.83 cents	HK16.54 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

	Note	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
Non-current Assets			
Investment properties		734,808	733,900
Property, plant and equipment		485,751	500,735
Intangible assets		1,407	1,970
Right-of-use assets		192,058	199,422
Interests in associates		66,318	62,529
Interest in a joint venture		5,997	5,878
Financial assets at fair value through profit or loss		2,998	2,998
Club memberships		14,477	4,477
Finance lease receivables		56,969	63,673
Deferred tax assets		9,038	7,782
		1,569,821	1,583,364
Current Assets			
Inventories		1,943,606	841,591
Trade and other receivables	7(a)	1,082,104	1,272,100
Trade receivables at fair value through other comprehensive income	7(b)	1,086,928	710,957
Contract assets		1,875	3,622
Finance lease receivables		27,635	34,497
Amount due from an associate		360	64
Derivative financial instruments		5,823	199
Financial assets at fair value through profit or loss		29,725	14,963
Taxation recoverable		2,428	1,958
Pledged bank deposits		24,260	46,245
Bank balances and cash		1,202,844	1,103,211
		5,407,588	4,029,407

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

As at 30 June 2020

	Note	30 June 2020 (Unaudited) HK\$'000	31 December 2019 (Audited) HK\$'000
Current Liabilities			
Trade and other payables	8	1,514,474	1,407,531
Bills payable	8	139,931	38,711
Contract liabilities		28,567	43,476
Lease liabilities – due within one year		2,625	10,138
Derivative financial instruments		–	906
Tax liabilities		49,166	87,412
Bank borrowings – due within one year		2,898,702	1,799,638
Other borrowings – due within one year		21,021	30,293
		4,654,486	3,418,105
Net Current Assets		753,102	611,302
Total Assets Less Current Liabilities		2,322,923	2,194,666
Non-current Liabilities			
Deferred tax liabilities		51,769	51,769
Lease liabilities – due after one year		–	245
Bank borrowings – due after one year		240,075	245,410
Other borrowings – due after one year		56,590	62,688
		348,434	360,112
Net Assets		1,974,489	1,834,554
Capital and Reserves			
Share capital		62,584	62,584
Share premium and reserves		1,690,143	1,559,766
Equity attributable to owners of the Company		1,752,727	1,622,350
Non-controlling interests		221,762	212,204
Total Equity		1,974,489	1,834,554

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020

	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 2019 (audited)	62,584	6,521	1,109	11,145	(11,756)	13,519	141,214	(44,939)	1,442,953	1,622,350	212,204	1,834,554
Profit for the period	-	-	-	-	-	-	-	-	130,377	130,377	40,558	170,935
Total comprehensive income for the period	-	-	-	-	-	-	-	-	130,377	130,377	40,558	170,935
Capital contribution by a non-controlling interests	-	-	-	-	-	-	-	-	-	-	250	250
Dividend paid to non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	(31,250)	(31,250)
At 30 June 2020 (unaudited)	62,584	6,521	1,109	11,145	(11,756)	13,519	141,214	(44,939)	1,573,330	1,752,727	221,762	1,974,489

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

For the six months ended 30 June 2020

	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 CASH FLOWS

For the six months ended 30 June 2020

	For the six months ended 30 June	
	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
Net cash (used in) from operating activities	(890,888)	544,454
Net cash (used in) from investing activities	(9,012)	14,314
Net cash from (used in) financing activities	999,532	(484,834)
Net increase in cash and cash equivalents	99,632	73,934
Cash and cash equivalents at beginning of the period	1,103,211	932,640
Cash and cash equivalents at end of the period, represented by bank balances and cash	1,202,843	1,006,574

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

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

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

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 30th June, 2020 are the same as those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31st December, 2019.

Application of amendments to HKFRSs

In the current interim period, the Group has applied the Amendments to References to the Conceptual Framework in HKFRS Standards and the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the annual period beginning on or after 1st January, 2020 for the preparation of the Group’s condensed consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

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

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES *(Continued)***Application of amendments to HKFRSs** *(Continued)****Impacts of application on Amendments to HKAS 1 and HKAS 8 Definition of Material***

The amendments provide a new definition of material that states “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.” The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the amendments in the current period had no impact on the condensed consolidated financial statements. Changes in presentation and disclosures on the application of the amendments, if any, will be reflected on the consolidated financial statements for the year ending 31 December 2020.

2 REVENUE

(a) Disaggregation of revenue from contracts with customers

	For the six months ended 30 June 2020 HK\$'000	For the six months ended 30 June 2019 HK\$'000
Types of goods and services		
<i>Sales of goods</i>		
Sales of electronic components and semiconductors	8,228,426	8,134,614
Sales of home appliances & business equipment	42,694	96,129
Sales of LED lighting products and display products	20,096	48,253
	8,291,216	8,278,996
Contract works of LED lighting and display products	40,558	36,066
Provision of related ancillary services of distribution of home appliances & business equipment	10,083	21,306
Revenue from contracts with customers	8,341,857	8,336,368
<i>Income from leasing activities</i>		
For operating leases – lease payment that are fixed:		
Rental income from investment properties	8,305	8,806
Rental income from LED lighting and display products	354	5,275
	8,659	14,081
Total revenue	8,350,516	8,350,449

2 REVENUE (Continued)

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

Geographical markets

Segments	For the six months ended 30 June 2020					Total HK\$'000
	Sales of electronic components and semiconductors HK\$'000	Sales of home appliances and business equipment HK\$'000	Contract works of LED lighting and display products HK\$'000	Sales of LED Lighting and display products HK\$'000	Provision of related ancillary services of distribution of home appliances & business equipment HK\$'000	
Hong Kong	2,448,340	40,617	32,913	5,592	10,083	2,537,545
Mainland China	5,354,591	45	—	6,685	—	5,361,321
Taiwan	163,151	—	—	19	—	163,170
Others	262,344	2,032	7,645	7,800	—	279,821
Revenue from contracts with customers	8,228,426	42,694	40,558	20,096	10,083	8,341,857
Rental income from investment properties						8,305
Rental income from LED lighting and display products						354
Total revenue						8,350,516

2 REVENUE (Continued)

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

Geographical markets (Continued)

Segments	For the six months ended 30 June 2019					Total HK\$'000
	Sales of electronic components and semiconductors HK\$'000	Sales of home appliances and business equipment HK\$'000	Contract works of LED lighting and display products HK\$'000	Sales of LED Lighting and display products HK\$'000	Provision of related ancillary services of distribution of home appliances & business equipment HK\$'000	
Hong Kong	5,667,370	92,424	20,697	2,173	21,223	5,803,887
Mainland China	1,986,192	148	-	27,747	83	2,014,170
Taiwan	169,948	-	-	9	-	169,957
Others	311,104	3,557	15,369	18,324	-	348,354
Revenue from contracts with customers	8,134,614	96,129	36,066	48,253	21,306	8,336,368
Rental income from investment properties						8,806
Rental income from LED lighting and display products						5,275
Total revenue						<u>8,350,449</u>

2 REVENUE (Continued)

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

Geographical markets (Continued)

	For the six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
Timing of revenue recognition		
A point in time	8,301,299	8,300,302
Over time	40,558	36,066
Revenue from contracts with customers	8,341,857	8,336,368
Rental income from investment properties	8,305	8,806
Rental income from LED lighting products and display products	354	5,275
Total revenue	8,350,516	8,350,449

(b) Information about major customer

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

	For the six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
Customer A	4,653,253	4,648,607

3 INCOME TAX EXPENSE

	For the six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
<hr/>		
The charge comprises:		
Hong Kong Profits Tax	31,660	26,629
Taiwan Corporate Income Tax	1,455	5,693
PRC Enterprise Income Tax	541	27
Deferred tax	(147)	(961)
	<hr/>	<hr/>
	33,509	31,388
	<hr/> <hr/>	<hr/> <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 2020 (six months ended 30 June 2019: 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/OTHER INCOME/OTHER GAINS AND LOSSES

	For the six months ended 30 June	
	2020 HK\$'000	2019 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	54,745	62,569
– performance related incentive payments	10,370	5,887
– retirement benefits scheme contributions	4,443	6,957
	69,558	75,413
Depreciation of property, plant and equipment	20,193	19,892
Depreciation of right-of-use assets	7,059	3,808
Amortisation of intangible assets (included in administrative expenses)	563	573
(Reversal of) allowance of trade receivables, net	(32)	(1,907)
Cost of inventories recognized as an expense (including reversal of allowance of inventories of HK\$37,075,300 (2019: allowance of inventories of HK\$7,758,900))	7,950,026	7,933,939
(b) Other income		
Interest income on finance leases	4,173	4,327
Interest income on bank deposits	566	1,206
Dividend income from equity investments	163	195
Others	4,827	1,543
	9,729	7,271
(c) Other gains and losses		
Net gain (loss) on fair value change of derivative financial instruments	6,531	(6,283)
Gain on modification of lease	2,761	–
Fair value change in finance lease	1,666	–
Gain on disposal of available-for-sale investments	341	–
Gain on disposal of property, plant and equipment	74	–
Change in fair value of financial assets at fair value through profit or loss	(1,468)	1,697
Net foreign exchange (loss) gain	(5,107)	6,074
	4,798	1,488

5 DIVIDEND PAID

The final dividend of HK17.0 cents per share amounting to HK\$106,392,365 for the financial year ended 31 December 2019 was approved on 20 May 2020 and paid on 8 July 2020.

6 EARNINGS PER SHARE

The calculation of the basic earnings per share for the six months ended 30 June 2020 is based on the profit for the period attributable to owners of the Company of HK\$130,377,000 (2019: HK\$103,515,000) and on the weighted average number of 625,837,440 (2019: 625,837,440) ordinary shares in issued during the period.

7(a) TRADE AND OTHER RECEIVABLES AND BILLS RECEIVABLE

	30 June 2020 HK\$'000	31 December 2019 HK\$'000
Trade receivables at amortised cost	1,020,135	1,199,927
Less: allowance for credit losses	(12,175)	(12,207)
	1,007,960	1,187,720
Other receivables	51,461	38,572
Prepayment and deposits paid	22,683	45,808
Total trade and other receivables	1,082,104	1,272,100

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 2020 HK\$'000	31 December 2019 HK\$'000
Current	838,375	869,440
Within 30 days	108,993	245,443
More than 30 days and within 60 days	23,458	24,915
More than 60 days and within 90 days	8,616	7,241
More than 90 days	28,518	40,681
Trade receivables and bills receivable	1,007,960	1,187,720
Other receivables	74,144	84,380
	1,082,104	1,272,100

During the period under review, the Group's five largest customers accounted for 65% (31 December 2019: 65%) 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 2020 HK\$'000	31 December 2019 HK\$'000
Trade receivables held for collecting contractual cash flows or factoring to banks	1,086,928	710,957

8 TRADE AND OTHER PAYABLES AND BILLS PAYABLE

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

	30 June	31 December
	2020	2019
	HK\$'000	HK\$'000
Current	1,410,875	1,103,826
Within 30 days	32,941	141,908
More than 30 days and within 60 days	34,616	28,097
More than 60 days and within 90 days	13,196	8,295
More than 90 days	15,810	23,676
Trade payables and bills payable	1,507,438	1,305,802
Other payables	146,967	140,440
	1,654,405	1,446,242

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK4.5 cents (2019: HK4.0 cents) per share payable to the shareholders of the Company whose names appear on the register of members of the Company on 7 October 2020. The dividend warrants are expected to despatch to shareholders on or about 15 October 2020.

CLOSURE OF REGISTERS OF MEMBERS

The register of members of the Company will be closed from 5 October 2020 to 7 October 2020, 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 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW





During the period under review, the semiconductor market is severely impacted by the COVID-19. China had the worst impact in the first quarter and its electronics manufacturing was seriously disrupted. Widespread lockdowns and social distancing measures to contain the COVID-19 affected movement of both goods and people. After massive government financial aid packages declared in the second quarter, consumer confidence started to bottom out and recover slightly. China has seen a fast recovery after the outbreak there was put under control.


Distribution of electronic components and semiconductor products

The Group is a global leading electronic supply chain services provider with almost 40 years of history. During the period under review, the COVID-19 reduced smartphone demand but applications such as those for remote study and work have become new business opportunities. The Group's component team recorded revenue of HK\$8.2 billion, increased by 1% compared with HK\$8.1 billion recorded in same period of 2019.

Amid difficult business conditions, we worked closely with customers and delivered competitive solutions such as high-storage and high-performance storage memory, foldable panels, multiple camera with ultra-high pixel and high magnification optical zoom, true wireless earbud, high-speed and wireless charging and other innovative solutions.

LED technology solution provider

Our LED technology solution provider team specializing in providing customized order fulfilments including sales and contract work of LED lighting and display products under our owned brand of Light In Motion  and LIM Infrasytems , digital out-of-home advertising solutions (including LED display rental solutions) under our own brand of Square  and the newly established business of sales of LED UV-C health care products under our own brand of Life In Motion  mainly in the Asia market.

Amid the peak of COVID-19 pandemic, our lighting team launched the sales of LED UV-C health care products (HONEY and STERIFY series) under own brand of Life In Motion  to consumer market, which we design and sell technology proven as well as SGS, Intertek and CMA laboratory certified smart hygienic products that create safe and virus-free environment by utilizing the germicidal properties of UV-C to sanitise and eliminate airborne and surface bacteria, viruses, mold and microorganisms. We got overwhelming market demand and successfully delivered our products via our e-commerce platform (www.lifeinmotionglobal.com) and large retail chain stores up to the reporting date.



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

During the period under review, lockdowns and social distancing hampered consumer confidence and retail market in Hong Kong. We have no alternative but to keep certain SHARP promotion and operation to minimal level. We will review our strategy when sign of the COVID-19 is being controlled and deferred enterprise and consumer spending returned.

Properties investment

As at 30 June 2020, the Group carried 15 units of investment properties (31 December 2019: 15 units) for commercial and industrial uses in Hong Kong and China. The aggregate carrying value of investment properties amounted to HK\$735 million (31 December 2019: HK\$734 million). During the period under review, the above investment properties altogether generated rental income of HK\$8.3 million (2019: HK\$8.8 million) with an annualized return of 2.3% (2019: 2.4%).

OUTLOOK

Looking into the second half of 2020, even the lingering impacts of the pandemic, shipments of 5G smartphones in China will lead the global market as Chinese smartphone vendors have been rolling out affordable entry-level and mid-tier 5G models to spur replacement demand in the local market.

However, the Group expected the economic impact of the COVID-19 will be unprecedented and will drag on to 2021. The Group will keep monitoring the progress of the COVID-19 and the on-going US-China conflicts and will 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 almost 40 years of experience, large customer base, industry expertise, market recognition and brand management ability, we are confident to pursue a healthy and sustainable business development and generate more returns to our shareholders.

FINANCIAL REVIEW

Results

The Group recorded HK\$8,350,516,000 in revenue for the six month period ended 30 June 2020, slightly increased from HK\$8,350,449,000 recorded in same period last year. Gross profit was HK\$400,490,000, decreased by 3.8% from HK\$416,510,000 recorded in same period last year. Gross profit margin was 4.8%, slightly decreased from 5.0% recorded in same period last year. Net profit for the period was HK\$130,377,000, increased by 25.9% from HK\$103,515,000 recorded in same period last year, mainly due to lower operating cost after the Group implemented cost containment measures to mitigate the impact of COVID-19. Basic earnings per share for the period was HK20.83 cents (2019: HK16.54 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 2020, the Group's current ratio was 116% (31 December 2019: 118%). The Group's net gearing ratio was 99% (31 December 2019: 53%), 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\$1,956,561,000 (31 December 2019: HK\$970,612,000) over total equity of HK\$1,974,489,000 (31 December 2019: HK\$1,834,554,000).

The Group recorded debtors turnover of 22 days for the period under review (2019: 21 days) based on the amount of trade and bills receivable as at 30 June 2020 divided by sales for the same period and multiplied by 182 days (2019: 181 days).

The Group recorded inventory turnover and average payable period of 44 days and 35 days respectively for the period under review (2019: 19 days and 22 days respectively) based on the amount of inventory and trade and bills payables as at 30 June 2020, divided by cost of sales for the same period and multiplied by 182 days (2019: 181 days).

During the six months period ended 30 June 2020, the Group recorded net operating cash outflow of HK\$890,888,000 compared with net operating cash inflow of HK\$544,454,000 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 2020, certain of the Group's assets (including land and building, bank deposits, factored trade receivables and investments held-for-trading) with the carrying value of totaling approximately HK\$331 million were pledged to banks to secure general banking facilities granted to the Group.

Employee and Remuneration Policy

At 30 June 2020, the Group employed approximately 500 employees in the Greater China region. The Group ensures that their employees are offered competitive remuneration packages. Other staff benefits include share option scheme, provident fund schemes and medical insurance. Also, discretionary bonus was granted to eligible employees based on the Group's financial results and individual performance.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 30 June 2020, 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

<u>Name of directors</u>	<u>Capacity</u>	<u>Number of issued ordinary shares held</u>	<u>Percentage of issued share capital of the Company</u>
Dr. Yim Yuk Lun, Stanley <i>BBS JP</i>	Beneficial owner	93,444,000	14.93%
	Held by controlled corporation (<i>Note 1</i>)	227,542,800	36.36%
		<u>320,986,800</u>	<u>51.29%</u>
Wong Sui Chuen	Beneficial owner	<u>1,824,000</u>	<u>0.29%</u>

(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
Dr. Yim Yuk Lun, Stanley <i>BBS JP</i>	Beneficial owner (<i>Note 2</i>)	33,492,861	5.13%
	Held by controlled corporation (<i>Note 2</i>)	211,963,000	32.47%
		<u>245,455,861</u>	<u>37.60%</u>
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:

1. These shares are held by Unimicro Limited, a company incorporated in the British Virgin Islands, which is beneficially owned by Dr. Yim Yuk Lun, Stanley *BBS JP*.
2. Dr. Yim Yuk Lun, Stanley *BBS JP* beneficially owns 33,492,861 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 2020.

SUBSTANTIAL SHAREHOLDERS

At 30 June 2020, 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 (note)	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 2020.

SHARE OPTION SCHEME

The Company has not granted or issued any share option up to 30 June 2020.

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.

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 2020, 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 Dr. 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.

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 2020.

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 2020.

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.

Finally, I wish you all stay healthy.

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

Hong Kong, 24 August 2020