

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

SUCCESS DRAGON INTERNATIONAL HOLDINGS LIMITED

勝龍國際控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 1182)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2020

The board of directors (the “Board”) of Success Dragon International Holdings Limited (the “Company”) announces that the unaudited consolidated interim results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 September 2020 (the “Period”) together with the comparative figures for the corresponding period are as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2020

		Six months ended	
		30 September	
		2020	2019
		HK\$'000	HK\$'000
	<i>Notes</i>	(Unaudited)	(Unaudited)
Revenue	5	50,473	44,276
Cost of sales		(41,709)	(29,983)
Gross profit		8,764	14,293
Other gain or loss, net	5	198	432
Selling and distribution costs		(1,249)	(3,210)
Administrative and other operating expenses		(11,912)	(16,618)
Loss from operations		(4,199)	(5,103)
Finance costs	6	(1,186)	(1,178)
Share of loss of an associate		(718)	(624)
Loss before tax		(6,103)	(6,905)
Income tax expense	7	—	—
Loss for the period	8	(6,103)	(6,905)

	Six months ended	
	30 September	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
<i>Notes</i>	(Unaudited)	(Unaudited)
Other comprehensive income:		
<i>Items that may be reclassified to profit or loss:</i>		
Exchange differences on translating foreign operations	<u>21</u>	<u>—</u>
Total other comprehensive income for the period, net of tax	<u>21</u>	<u>—</u>
Total comprehensive loss for the period	<u>(6,082)</u>	<u>(6,905)</u>
Loss per share (HK cents per share)		
<i>Basic and diluted loss per share</i>	10 <u>(0.26)</u>	<u>(0.29)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2020

		30 September 2020 <i>HK\$'000</i> (Unaudited)	31 March 2020 <i>HK\$'000</i> (Audited)
	<i>Notes</i>		
Non-current assets			
Property, plant and equipment	11	3,823	4,680
Right-of-use assets		—	222
Investment in an associate		3,979	4,697
Goodwill		433	433
		8,235	10,032
Current assets			
Equity investment at fair value through other comprehensive income	12	—	—
Inventories		880	100
Trade receivables	13	28	28
Loan receivables	14	43,137	40,232
Deposits and other receivables	15	8,533	13,184
Bank and cash balances		3,641	1,629
		56,219	55,173
Current liabilities			
Trade payables	16	1,324	—
Other payables and accruals		9,797	9,586
Lease liabilities		—	232
Loan from a director	17	4,219	—
Amount due to a director		48	—
Other loans	18	23,507	26,065
		38,895	35,883
Net current assets		17,324	19,290
Total asset less current liabilities		25,559	29,322
Non-current liabilities			
Other loan	18	2,319	—
NET ASSETS		23,240	29,322
Capital and reserves			
Share capital		23,663	23,663
Reserves		(423)	5,659
TOTAL EQUITY		23,240	29,322

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2020

1. GENERAL INFORMATION

Success Dragon International Holdings Limited (the “Company”) is incorporated in Bermuda as an exempted company with limited liability under the Bermuda Companies Act. The address of the registered office of the Company is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. The address of the principal place of business of the Company is Room 903, 9/F., Tower A, New Mandarin Plaza, 14 Science Museum Road, Tsim Sha Tsui East, Kowloon, Hong Kong. The shares of the Company are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The principal activity of the Company is investment holding and the principal activities of the Group are provision of outsourced business process management for electronic gaming machines in Macau, provision of money lending services in Hong Kong and gold-laden carbon processing business in the People’s Republic of China (the “PRC”).

2. BASIS OF PREPARATION

These condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

These condensed consolidated financial statements should be read in conjunction with the 2020 annual financial statements. The accounting policies and methods of computation used in the preparation of these condensed consolidated financial statements are consistent with those used in the annual financial statements for the year ended 31 March 2020.

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current period, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA that are relevant to its operations and effective for its accounting year beginning on 1 April 2020. HKFRSs comprise Hong Kong Financial Reporting Standards (“HKFRS”); Hong Kong Accounting Standards (“HKAS”); and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group’s accounting policies, presentation of the Group’s financial statements and amounts reported for the current period and prior years.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results of operations and financial position.

4. SEGMENT INFORMATION

For management purpose, the Group's operating segments and their principal activities are as follows:

Outsourced business process management	—	Provision of services on management of electronic gaming equipment in Macau
Money lending services	—	Provision of money lending services in Hong Kong
Gold-laden carbon processing business	—	Provision of gold-laden carbon processing and the sale of gold and other precious metals in the PRC
Information technology services	—	Provision of information technology services

The Group's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies.

Information regarding the above segment is reported below.

(a) Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable segment:

	For the six months ended 30 September									
	Outsourced business process management		Money lending services		Gold-laden carbon processing business		Information technology services		Total	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
REVENUE:										
Revenue from external customers	17,775	42,012	3,139	2,264	29,559	—	—	—	50,473	44,276
Segment (loss)/profit	(4,874)	(1,735)	1,428	1,962	243	—	—	(7)	(3,203)	220
Interest income									2	1
Unallocated income									196	23
Unallocated corporate expenses									(1,194)	(5,347)
Share of loss of an associate									(718)	(624)
Finance costs									(1,186)	(1,178)
Loss before tax									(6,103)	(6,905)

The accounting policies of the reportable segments are the same as the Group's accounting policies. Segment (loss)/profit represents the (loss)/profit of each segment without allocation of interest income, finance costs and unallocated income and expenses. This is the measure reported to the chief operating decision maker of the Group for the purposes of resource allocation and assessment of segment performance.

(b) Segment assets and liabilities

	At 30 September 2020 <i>HK\$'000</i> (Unaudited)	At 31 March 2020 <i>HK\$'000</i> (Audited)
Segment assets		
Outsourced business process management	4,501	12,593
Money lending services	43,657	40,280
Gold-laden carbon processing business	3,449	1,229
Information technology services	—	52
	<hr/>	<hr/>
Total segment assets	51,607	54,154
Bank and cash balances	3,641	1,629
Investment in an associate	3,979	4,697
Other unallocated assets	5,227	4,725
	<hr/>	<hr/>
Total assets	64,454	65,205
Segment liabilities		
Outsourced business process management	3,898	1,025
Money lending services	233	235
Gold-laden carbon processing business	1,796	1,795
Information technology services	—	85
	<hr/>	<hr/>
Total segment liabilities	5,927	3,140
Other loans	25,826	26,065
Other unallocated liabilities	9,461	6,678
	<hr/>	<hr/>
Total liabilities	41,214	35,883

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to reportable segments other than investment in an associate, bank and cash balances and unallocated corporate assets; and
- all liabilities are allocated to reportable segments other than other loans and unallocated corporate liabilities.

(c) **Geographical information**

The Group's operations are located in Hong Kong, Macau and the PRC.

The Group's revenue from external customers by geographical location is detailed below:

Revenue by geographical market

	Six months ended 30 September	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Hong Kong	3,139	2,264
Macau	17,775	42,012
The PRC	29,559	—
	<u>50,473</u>	<u>44,276</u>

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

	Six months ended 30 September	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Customer A [#] — Gold-laden carbon processing business segment	<u>29,559</u>	<u>—</u>

[#] Customer A did not contribute over 10% of the Group's revenue for the six months ended 30 September 2019.

5. REVENUE AND OTHER GAIN OR LOSS, NET

Revenue represents amounts received and receivable for services provided and goods sold by the Group to outside customers, less discounts and sales related taxes.

An analysis of the Group's revenue and other income for the periods are as follows:

	Six months ended 30 September	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Revenue from contracts with customers		
Provision of services on management of electronic gaming equipment in Macau	17,775	42,012
Provision of gold-laden carbon processing business	29,559	—
	<u>47,334</u>	<u>42,012</u>
Revenue from other source:		
Provision of money lending services in Hong Kong	3,139	2,264
	<u>50,473</u>	<u>44,276</u>

Disaggregation of revenue from contracts with customers:

	Outsourced business process management	Gold-laden carbon processing business	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)
Six months ended 30 September 2020:			
Time of revenue recognition			
— At a point of time	—	29,559	29,559
— Overtime	17,775	—	17,775
	<u>17,775</u>	<u>29,559</u>	<u>47,334</u>
Six months ended 30 September 2019:			
Time of revenue recognition			
— At a point of time	—	—	—
— Overtime	42,012	—	42,012
	<u>42,012</u>	<u>—</u>	<u>42,012</u>

Provision of services on management of electronic gaming equipment in Macau

The Group provides electronic gaming equipment management services to the customers. Electronic gaming equipment management services income is recognised when the electronic gaming equipment management services are rendered and there is no unfulfilled obligation that could affect the customer's acceptance of the service.

Provision of gold-laden carbon processing business

The Group process gold-laden carbon and sales of precious metal to the customers. Sales are recognised when control of the products has transferred, being when the products are delivered to a customer, there is no unfulfilled obligation that could affect the customer's acceptance of the products and the customer has obtained legal titles to the products.

A receivable is recognised when the products are delivered to the customers as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due. Deposits received from customers are recognised as contract liabilities.

Provision of information technology services

The Group provides information technology services to the customers. Information technology services income is recognised when the information technology services are rendered and there is no unfulfilled obligation that could affect the customer's acceptance of the service.

	Six months ended 30 September	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Other gain or loss, net:		
Gain on disposal of property, plant and equipment	—	408
Interest income on bank deposits	2	1
Government grant	81	—
Gain on termination of leases (<i>Note</i>)	8	—
Sundry income	107	23
	<u>198</u>	<u>432</u>

Note:

During the current interim period, the Group had terminated leases and in result, gain on termination of leases of approximately HK\$8,000 had been recognised and the right-of-use assets with carrying amount of approximately HK\$163,000 and the lease liabilities with carrying amount of approximately HK\$171,000 had been disposed.

6. FINANCE COSTS

	Six months ended 30 September	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Leases interests	2	37
Interest on other loans	1,029	1,021
Imputed interest on other loans	155	120
	<u>1,186</u>	<u>1,178</u>

7. INCOME TAX EXPENSE

No provision for Hong Kong profits tax is required since the Group has no assessable profit for the six months ended 30 September 2020 and 2019.

Macau Complementary Tax is calculated at a progressive rate from 9% to 12% on the estimated assessable profit for the period. No provision for Macau Complementary Tax is required as the Company's subsidiary in Macau incurred tax losses for the period. Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of subsidiaries of the Company in the PRC was 25% in both period.

8. LOSS FOR THE PERIOD

The Group's loss for the period is stated after charging:

	Six months ended 30 September	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Depreciation of property, plant and equipment	1,736	1,405
Depreciation of right-of-use assets	59	528
Directors' remuneration	629	1,411
Staff costs (including directors' remuneration):		
Salaries, allowances and other benefits in kind	4,260	7,778
Pension scheme contributions	108	151
Total staff costs	<u>4,368</u>	<u>7,929</u>

9. DIVIDEND

The Directors do not recommend the payment of any dividend for the six months ended 30 September 2020 and 2019.

10. LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share attributable to owners of the Company is based on the loss of approximately HK\$6,103,000 (for the six months ended 30 September 2019: HK\$6,905,000) for the period attributable to owners of the Company and the weighted average number of 2,366,287,000 (for the six months ended 30 September 2019: 2,366,287,000) ordinary shares in issue during the six months ended 30 September 2020.

(b) Diluted loss per share

No diluted loss per share is presented for the six months ended 30 September 2020 and 2019 as the exercise of the Company's outstanding share options would be anti-dilutive.

11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 September 2020, the Group acquired property, plant and equipment of approximately HK\$2,090,000 (six months ended 30 September 2019: HK\$10,000).

12. EQUITY INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	30 September 2020 HK\$'000 (Unaudited)	31 March 2020 HK\$'000 (Audited)
Unlisted equity securities, at fair value	—	—

During the year of 2017, the Group invests HK\$155,460,000 in Primus Power Corporation (the "Primus"), a company incorporated in United State of America and owned 73,251,487 Series E Preferred Shares (the "Primus Shares") and representing 20.82% equity interests in Primus. Due to certain contractual arrangements with the other shareholders of that company, the Group is unable to exercise significant influence over that company and the investment is classified as equity investments at fair value through other comprehensive income.

Primus recorded net loss during the six months ended 30 September 2020 and recorded net liabilities as at 30 September 2020. No fair value change on investment in Primus has been recognised during the six months ended 30 September 2020 and 2019 under level 3 input fair value measurement with asset approach valuation technique adopted.

13. TRADE RECEIVABLES

The Group's trading terms with other customers are mainly on credit. The credit terms generally range from 30 to 90 days. Each customer has a maximum credit limit. For new customers, payment in advance is normally required. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the directors.

The aging analysis of trade receivables, based on the invoice date, and net of allowance, is as follows:

	30 September 2020 HK\$'000 (Unaudited)	31 March 2020 HK\$'000 (Audited)
Within 30 days	—	28
181 to 365 days	<u>28</u>	<u>—</u>
	<u>28</u>	<u>28</u>

14. LOAN RECEIVABLES

	30 September 2020 HK\$'000 (Unaudited)	31 March 2020 HK\$'000 (Audited)
Loan receivables	<u>43,137</u>	<u>40,232</u>

The fixed-rate loans receivables of approximately HK\$43,137,000 (31 March 2020: HK\$40,232,000) under the Group's money lending services operation as at 30 September 2020 represent loan advanced to 13 (31 March 2020: 12) independent third parties. The interest rates for the loan receivables were ranging from 12% to 18% (31 March 2020: 12% to 18%) per annum.

15. DEPOSITS AND OTHER RECEIVABLES

	30 September 2020 <i>HK\$'000</i> (Unaudited)	31 March 2020 <i>HK\$'000</i> (Audited)
Deposits paid for acquisition of property, plant and equipment	5,000	8,500
Deposits and prepayments	2,430	2,592
Deposits paid for game software development and licenses	<u>30,000</u>	<u>30,000</u>
	37,430	41,092
Less: Impairment losses	<u>(31,468)</u>	<u>(31,468)</u>
	<u>5,962</u>	<u>9,624</u>
Other receivables	5,571	6,560
Less: Impairment losses	<u>(3,000)</u>	<u>(3,000)</u>
	<u>2,571</u>	<u>3,560</u>
	<u><u>8,533</u></u>	<u><u>13,184</u></u>

As at 30 September 2020 and 31 March 2020, included in the impairment losses of other receivables, deposits and prepayments are individually impaired other receivables and deposits with an aggregate balance of approximately HK\$34,468,000 which are due to long outstanding and/or default of payment. The Group does not hold any collateral over these balances. Impaired amounts were directly written off against deposits and receivables when there was no expectation of recovering any amount.

16. TRADE PAYABLES

The aging analysis of the trade payables as at the end of reporting period, based on the date of receipt of consumables or goods purchased, is as follows:

	30 September 2020 <i>HK\$'000</i> (Unaudited)	31 March 2020 <i>HK\$'000</i> (Audited)
0–30 days	171	—
61–90 days	<u>1,153</u>	—
	<u><u>1,324</u></u>	<u><u>—</u></u>

17. LOAN FROM A DIRECTOR

The loan is unsecured, non-interest bearing and repayable on demand.

18. OTHER LOANS

	30 September 2020 HK\$'000 (Unaudited)	31 March 2020 HK\$'000 (Audited)
Other Loan A	—	3,376
Other Loan B	14,213	13,550
Other Loan C	9,294	9,139
Other Loan D	2,319	—
	25,826	26,065
Non-current portion	2,319	—
Current portion	23,507	26,065
	25,826	26,065

(a) Other Loan A

As at 31 March 2020, the balance of the Other Loan A amounted to HK\$3,376,000, representing an unsecured and unguaranteed interest-free loan from an independent third party (“Loan A Borrower”) with principal amount of HK\$3,500,000 with repayment date of 11 August 2020. The effective interest rate applied was 10% per annum. During the Period, an independent third party, being the supplier with deposits paid by the Group, the Loan A borrower and the Company had entered a deed of assignment, pursuant to which the entire Other Loan A had been offset with the deposits due from the Group amounted to HK\$3,500,000.

(b) Other Loan B

As at 30 September 2020, the Other Loan B accounted to HK\$13,550,000 representing an unsecured loan with fixed interest rate of 14.5% per annum are repayable on 5 September 2020. The loan extension is still under negotiation.

(c) Other Loan C

During the year ended 31 March 2020, the Company entered into an unsecured loan agreement with an independent third party (the “Other Loan C”). Pursuant to the loan agreement, the principal amount of the loan is HK\$8,865,000 with fixed interest rate of 3.5% per annum and repayable on 13 May 2020. On 13 May 2020, the loan is extended and repayable on 13 May 2021.

(d) Other Loan D

During the six months ended 30 September 2020, the Company entered into an unsecured loan agreement with an independent third party (the “Other Loan D”). Pursuant to the loan agreement, the principal amount of the loan is RMB2,000,000 with fixed interest rate of 5% per annum and repayable on 11 May 2030.

19. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS

The Company operates a share option scheme (the “Scheme”) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. Eligible participants include directors, full-time employees, senior executives and consultants of the Group. The Scheme has been adopted since 28 September 2012 and amended on 8 August 2014, and unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The table below discloses movement of the Company’s share options held by the eligible participants:

	Number of share options
Outstanding as at 1 April 2019 (audited)	29,400,000
Forfeited during the period	<u>(1,400,000)</u>
Outstanding as at 30 September 2019 (unaudited)	<u>28,000,000</u>
Forfeited during the period	<u>—</u>
Outstanding as at 1 April 2020 (audited)	<u>28,000,000</u>
Forfeited during the period	<u>(300,000)</u>
Outstanding as at 30 September 2020 (unaudited)	<u><u>27,700,000</u></u>

There were no share options exercised during the six months ended 30 September 2020 and 2019.

20. CAPITAL COMMITMENTS

As at 30 September 2020, the Group’s capital expenditure contracted for but not provided in respect of acquisition of property, plant and equipment amounted to approximately HK\$2,296,000 (31 March 2020: HK\$2,296,000).

21. RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

There were no other related party transactions and balances except for those disclosed elsewhere in the condensed consolidated financial statements.

(b) Key management compensation

The remuneration of key management personnel (only the Directors) of the Group during the current period was as follow:

	Six months ended 30 September	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Salaries, allowances and other benefits in kind	625	1,402
Retirement benefits scheme contributions	4	9
	629	1,411

22. LITIGATIONS

(a) The Company against Mr. Cheng Chee Tock Theodore (deceased) (“Mr. Cheng”), Ms. Leonora Yung (“Ms. Yung”) and others

For details, background and the development of this litigation in the prior years, please refer to previously issued annual report since 2010/2011 and interim report since 2011/2012.

There was no other development for this litigation during the reporting period.

(b) The Company and Highsharp Investments Limited, as the Plaintiffs

For details, background and the development of this litigation in the prior years, please refer to previously issued annual report since 2010/2011 and interim report since 2011/2012.

There was no other development for this litigation during the reporting period.

(c) The Company and Ace Precise International Limited, as the Plaintiffs

For details, background and the development of this litigation in the prior years, please refer to previously issued annual report since 2010/2011 and interim report since 2011/2012.

There was no other development for this litigation during the reporting period.

(d) The Company together with former subsidiaries of the Company against Mr. Cheng

For details, background and the development of this litigation in the prior years, please refer to previously issued annual report since 2010/2011 and interim report since 2011/2012.

By the order of the Court on 31 July 2018, the Case Management Summons Hearing (“CMS Hearing”) on 1 August 2018 was vacated and adjourned to 30 January 2019.

By the order of the Court on 28 January 2019, the CMS Hearing on 30 January 2019 was vacated and adjourned to 10 May 2019.

By the order of Court on 9 May 2019, the CMS Hearing on 10 May 2019 was vacated and adjourned to 5 September 2019.

The CMS Hearing on 5 September 2019 was vacated and adjourned to 22 January 2020 during the year ended 31 March 2020.

There was no other development for this litigation during the current period.

23. EVENT AFTER THE REPORTING PERIOD

As at the approval date on these condensed consolidated financial statements, the Group had no significant event after the reporting period which need to be disclosed.

24. APPROVAL OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The condensed consolidated financial statements were approved and authorised for issue by the board of Directors on 30 November 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Performance of the Group

During the six months ended 30 September 2020 (the “Period Under Review”), the Group was principally engaged in provision of outsourced business process management for electronic gaming machines in Macau (the “Outsourced Business Process Management”) and money lending business. During the Period Under Review, no revenue had been generated from information technology services business. Also, the Company had diversified its operations into the business of processing gold-laden carbon and sale of gold and other precious metals.

Outsourced Business Process Management

During the Period Under Review, revenue generated from the Outsourced Business Process Management decreased significantly by approximately 57.7% from approximately HK\$42.0 million in the same period of last year (the “Last Corresponding Period”) to approximately HK\$17.8 million. The decrease was mainly attributable to intense competition in the Macau gaming market faced by the Group. The market competition was further worsened by the outbreak of COVID-19 pandemic. Macau government had previously announced temporary closure of all Macau casino operations as a measure against the spread of COVID-19 pandemic. Although casino operations were resumed later but operated at reduced capacity. Certain health precautionary measures such as slot machine spacing and limiting the number of seats per gambling table remain in force for most casino operations in Macau. COVID-19 pandemic has severally affected tourism arrivals and gambling industry in Macau. As a result, this has imposed a high risk to the revenue of our Group in outsourced business process management for electronic gaming machines in Macau.

Despite the cost control measures implemented by the Group in Macau operations, the loss was incurred from such segment. The loss from this captioned segment during the Period Under Review was approximately HK\$4.9 million compared with loss of approximately HK\$1.7 million during the Last Corresponding Period, which is mainly due to travel restrictions in Macau as a results of COVID-19 pandemic.

On one hand, the Group strives to continuously concentrate on its Outsourced Business Process Management business and on the other hand, the Group will take cautious control of its operating costs so as to maintain its competitiveness in the market.

Money Lending Business

During the Period Under Review, revenue generated from money lending business was approximately HK\$3.1 million with the segment profit of approximately HK\$1.4 million (Last Corresponding Period: revenue of approximately HK\$2.3 million, profit of approximately HK\$2.0 million).

Gold-laden Carbon Processing Business

The Group has diversified its business into the gold-laden carbon processing and the sale of gold and other precious metals in March 2020. The Board seeks to open up the new revenue channel in goldladen carbon processing market. The Group will be establishing a production line in Yunnan province, PRC, for the extraction of gold and other precious metals from goldladen carbon. The Group will purchase the gold-laden carbon from suppliers including mining enterprises and traders. At the Group's production line, gold and other precious metals will be extracted from the gold-laden carbon using processes such as desorption and electrodeposition. The extracted gold and other precious metals will be sold to buyers and dealers in the PRC.

During the Period Under Review, revenue generated from gold-laden carbon processing business was approximately HK\$29.6 million with profit of approximately HK\$0.2 million.

FUTURE DEVELOPMENTS IN THE BUSINESS OF THE GROUP

Investors have embraced gold in 2020 as a key portfolio hedging strategy. Looking ahead, slower recovery or potential setbacks from additional waves of infections, the pandemic will continue to reinforce the role of gold as a strategic asset and can help investors diversify risks. Against this backdrop, the Group will strive to focus on gold-laden carbon processing business to generate the stable return to the Group.

In addition to the Group's commitment to the development of its core business, the Board seeks to open up different revenue channels in different markets, achieving sustainable growth in the next few years and elevate itself to be a major player in high growth industries and markets. In particular, the Group will leverage on its experience and know-how in the existing businesses to capture market opportunities in technology-related sectors. The Company wishes to form strategic partnerships with major players in the region, exploiting its strong business networks and grow in markets of this strategic fit to deliver strong and sustainable returns to the shareholders of the Company.

As at the date of this interim results announcement, the Group had no plans for material investments or acquisition of capital assets. However, the Group will continue to identify new opportunities for business development. In the event that any definitive agreement is entered into in relation to any material investments or acquisition of capital assets, further announcement(s) will be made if and when required or as appropriate in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

FINANCIAL REVIEW

During the Period Under Review, the Outsourced Business Process Management business continued to be one of the Group's core business which contributed approximately 35.2% (Last Corresponding Period: approximately 94.9%) of the Group's total revenue. The revenue derived from this business segment was approximately HK\$17.8 million, representing a decrease of approximately 57.7% (Last Corresponding Period: approximately HK\$42.0 million). During the Period Under Review, no revenue had been generated from information technology services business (Last Corresponding Period: Nil). During the Period Under Review, the revenue derived from the money lending business segment was approximately HK\$3.1 million (Last Corresponding Period: approximately HK\$2.3 million, represent an increase of 38.7%). The revenue derived from new business segment this year, gold-laden carbon processing business was approximately HK\$29.6 million, which contributed approximately 58.5% of the Group's total revenue. As a result of the above, for the six months ended 30 September 2020, the Group recorded a total revenue of approximately HK\$50.5 million (Last Corresponding Period: approximately HK\$44.3 million), representing an increase of approximately 14.0%.

The Group recorded a decrease in loss attributable to owners of the Company of approximately HK\$0.8 million from approximately HK\$6.9 million for the Last Corresponding Period to approximately HK\$6.1 million during the Period Under Review.

Selling and distribution costs of the Group during the Period Under Review were recorded a decrease of approximately 61.1% to approximately HK\$1.2 million, comparing with approximately HK\$3.2 million of the Last Corresponding Period.

During the Period Under Review, the Group recorded a decrease in administrative and other expenses by approximately HK\$4.7 million or 28.3% from approximately HK\$16.6 million for the Last Corresponding Period to approximately HK\$11.9 million for the Period Under Review. The decrease was primarily attributed to the reduction of depreciation and amortisation costs.

LIQUIDITY, FINANCIAL RESOURCES AND FOREIGN CURRENCY EXPOSURE

As at 30 September 2020, the Group had bank and cash balances of approximately HK\$3.6 million.

During the Period Under Review, the Group had a loan agreement with an independent third party for an unsecured and unguaranteed loan amounted to HK\$13.6 million and interest rate at 14.5% per annum, and repayable on 5 September 2020. The loan extension is still under negotiation.

During the Period Under Review, the Group entered into a loan agreement with an independent third party for an unsecured and unguaranteed loan with principal amount of approximately HK\$8.9 million and fixed interest rate at 3.5% per annum. Pursuant to this loan agreement, the repayment date on 13 May 2020. On 13 May 2020, the loan is extended and repayable on 13 May 2021.

During the Period Under Review, the Company entered into an unsecured loan agreement with an independent third party. Pursuant to the loan agreement, the principal amount of the loan is RMB2.0 million with fixed interest rate of 5% per annum and repayable on 11 May 2030.

The gearing ratio of loans against the total equity as at 30 September 2020 was approximately 129.3%. As the bank deposits and cash on hand were denominated in Hong Kong dollar, followed by Macau Pataca, US Dollar and Renminbi, the Group's exchange risk exposure continues to depend on the movement of the exchange rates of the aforesaid currencies.

TREASURY POLICY

The Group maintains a conservative approach on foreign exchange exposure management and ensures that its exposure to fluctuations in foreign exchange rates is minimised. The Group did not engage in any derivatives agreement and did not commit to any financial instruments to hedge its foreign exchange exposures during the six months ended 30 September 2020. The Group will continue to monitor its foreign exchange exposure closely and will consider hedging significant foreign currency exposure should the need arise.

CAPITAL STRUCTURE

There was no significant change in the Group's capital structure for the six months ended 30 September 2020.

MATERIAL ACQUISITIONS, DISPOSALS AND SIGNIFICANT INVESTMENT

The Company did not have any material acquisition, disposal and significant investment in subsidiaries, associates and joint ventures during the six months ended 30 September 2020.

PLEDGE OF ASSETS

As at 30 September 2020, no asset was pledged by the Group.

CAPITAL COMMITMENTS

As at 30 September 2020, the Group's capital expenditure contracted for but not provided in the interim financial statements in respect of acquisition of property, plant and equipment amounted to approximately HK\$2,296,000.

CONTINGENT LIABILITIES

As at 30 September 2020, the Group did not have any significant contingent liabilities.

EMPLOYEES AND REMUNERATION POLICY

The Group employed 45 employees as at 30 September 2020.

The Group continued to review the remuneration packages of employees with reference to the level and compensation of pay, general market condition and individual performance. Staff benefits offered by the Group to its employees include contribution to defined contribution retirement scheme, discretionary bonus, share option scheme, medical allowance and hospitalization scheme and housing allowance, the quality of which is generally in line with the local practice. The Group supports a fair, transparent and high performance culture through its human resources policies, by developing and improving its programs particularly on recruitment, performance management, training and development and employee relations.

LITIGATION

The Group has a number of pending litigations and in the opinion of the legal counsel of the Company engaged in respect of such litigations, it is premature to predict the outcomes. Details of litigation are disclosed in note 22 to the interim financial statements.

OTHER INFORMATION

INTERIM DIVIDEND

The Board of Directors of the Company resolved not to declare the payment of an interim dividend for the Period (For the six months ended 30 September 2019: Nil). Accordingly, no closure of register of members of the Company is proposed.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Group was a party and in which a Director had a material interest, whether directly or indirectly, subsisted during the six months ended 30 September 2020.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

For the six months ended 30 September 2020, the Directors are not aware of any business or interest of the Directors, the management of the Company and their respective associates (as defined under the Listing Rules) that competes or may compete with the business of the Group and any other conflict of interest which any such person has or may have with the Group.

CORPORATE GOVERNANCE

The Board is satisfied that the Company has complied with the applicable code provisions set out in the Corporate Governance Code contained in Appendix 14 (the "CG Code") to the Listing Rules throughout the Period except for the following deviation:

- (1) Code Provision A.4.1 of the CG Code provides, inter alia, that non-executive Directors should be appointed for a specific term and subject to re-election.**

The independent non-executive Directors are not appointed for a specific term. However, they are subject to retirement by rotation and re-election at the annual general meeting of the Company at least once every three years in accordance with the Company's Bye-laws and the Listing Rules. As such, the Board considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the CG Code.

- (2) Code Provision A.2.1 of the CG Code provides that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.**

The roles of Chairman and CEO of the Company were both performed by Mr. DING Lei ("Mr. Ding"), an Executive Director of the Company with effect from 20 September 2019. Mr. Ding was subsequently re-designated as the Co-CEO, together with Mr. ZHU Tianxiang ("Mr. Zhu"), an Executive Director of the Company jointly as the Co-CEO of the Company with effect from 11 June 2020. The Board considers that having Mr. Ding to act as the Chairman and Co-CEO of the Company would enhance the operation efficiency and core competitiveness of the Group, more clearly define the organizational structure, and simplify the Group's decision-making mechanism. Therefore, the Board considers that such deviation is beneficial to the Group's overall business development.

The Board will continue to review the management structure of the Group from time to time and shall make necessary changes when appropriate and inform the shareholders of the Company accordingly.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules as its code of conduct regarding securities transactions by the Directors. Upon specific enquiry of all the Directors made by the Company, all Directors have confirmed that they have complied with the required standard set out in the Model Code regarding securities transactions by the Directors during the Period.

REMUNERATION COMMITTEE

The Company established the remuneration committee (the “Remuneration Committee”) which has adopted written terms of reference in compliance with the Listing Rules. As at the date of this interim results announcement, the Remuneration Committee is composed of two Independent Non-Executive Directors, namely Mr. DENG Yougao (Chairman) and Mr. CHONG Lok Man and one Executive Director, Mr. DING Lei. The Remuneration Committee is responsible for reviewing, determining and making recommendations to the Board on the remuneration, compensation and benefits of Directors and senior management. The terms of reference of the Remuneration Committee are available and accessible on the Company’s website.

NOMINATION COMMITTEE

The Company established the nomination committee (the “Nomination Committee”) which has adopted written terms of reference in compliance with the Listing Rules. As at the date of this interim results announcement, the Nomination Committee is composed of one Executive Director, Mr. DING Lei (Chairman) and two Independent Non-Executive Directors, namely Mr. CHONG Lok Man and Mr. DENG Yougao. The Nomination Committee is responsible for making recommendations to the Board on the appointment or reappointment of Directors and succession planning for Directors. The Nomination Committee reviews the structure, size and composition of the Board, and identifies suitably qualified candidates to become Board members. The Nomination Committee also ensures the Board comprises members with mixed skills and experience with appropriate weights necessary to accomplish the Group’s business development, strategies, operation, challenges and opportunities. The terms of reference of the Nomination Committee are available and accessible on the Company’s website.

AUDIT COMMITTEE

The Company established the audit committee (the “Audit Committee”) which has adopted written terms of reference in compliance with the Listing Rules. As at the date of this interim results announcement, the Audit Committee is composed of three Independent Non-Executive Directors, namely Ms. WONG Chi Yan (Chairman), Mr. DENG Yougao and Mr. CHONG Lok Man. The Audit Committee is responsible for considering appointment of the external auditor, reviewing the interim and annual financial statements before

submission to the Board, and overseeing the Group's financial reporting, risk management and internal control systems. The terms of reference of the Audit Committee are available and accessible on the Company's website.

CHANGES IN DIRECTORS' INFORMATION

Changes in Directors' information in respect of the period from 1 April 2020 up to the date of this interim results announcement are set out below:

Mr. CHONG Lok Man was appointed as an Independent Non-Executive Director, the member of each of the Audit Committee, Nomination Committee and Remuneration Committee with effect from 8 May 2020.

Mr. DING Lei, an Executive Director, was re-designated as the Co-CEO with effect from 11 June 2020.

Mr. LIU Hu resigned as an Executive Director with effect from 11 June 2020.

Mr. ZHU Tianxiang was appointed as the Co-CEO and Executive Director with effect from 11 June 2020.

Ms. CHEUNG Nai Yuet was appointed as an Executive Director with effect from 11 June 2020 and subsequently resigned on 15 October 2020.

Ms. WONG Chi Yan, an Independent Non-Executive Director, resigned as the independent non-executive director of Huiyin Holdings Group Limited (stock code: 1178), a company listed on the Main Board of the Stock Exchange with effect from 10 June 2020.

Mr. CHONG Lok Man, an Independent Non-Executive Director, resigned as the vice president of the Marketing Department at Emperor Securities Limited on 15 July 2020. He was subsequently appointed as the vice president of Grand View Securities Limited on 7 September 2020.

Mr. DENG Yougao, an Independent Non-Executive Director, was appointed as the chairman of the board of Shenzhen Henggu Nano Technology Co. Ltd. (Formerly known as Shenzhen Henggu Anticorrosion Nano Technology Co., Ltd.), the chairman of the board of Shengshi Henggu (Holdings) Co. Ltd., the managing partner of Shengshi Henggu (Shenzhen) Management Center (Limited Partnership) and the managing partner of Henggu Shengshi (Shenzhen) Management Center, all with effect from 30 August 2020.

REVIEW OF INTERIM RESULTS

The Audit Committee has reviewed the unaudited condensed consolidated results for the Period.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

During the Period, neither the Company nor any of its subsidiaries have purchased, sold or redeemed any of the Company's listed securities.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

The interim report of the Group for the Period, which contains the detailed results and other information of the Group for the Period required pursuant to Appendix 16 of the Listing Rules, will be despatched to the shareholders of the Company and published on the Stock Exchange's website at www.hkexnews.hk and the Company's designated website at www.successdragonintl.com in due course. This announcement can also be accessed on the above websites.

By Order of the Board

Success Dragon International Holdings Limited

DING Lei

Chairman, Co-Chief Executive Officer and Executive Director

Hong Kong, 30 November 2020

As at the date of this announcement, the Board comprises two Executive Directors, namely Mr. DING Lei and Mr. ZHU Tianxiang; and three Independent Non-Executive Directors, namely Ms. WONG Chi Yan, Mr. DENG Yougao and Mr. CHONG Lok Man.