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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in the Company, you should at once hand this circular, together with the enclosed form of proxy, to the purchaser(s) or transferee(s) or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

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S.A.S. Dragon Holdings Limited

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

CONTINUING CONNECTED TRANSACTIONS AND NOTICE OF SPECIAL GENERAL MEETING

Independent Financial Adviser to
the Independent Board Committee and the Independent Shareholders



A letter from the Independent Board Committee is set out on page 34 of this circular.

A letter from Gram Capital containing its advice to the Independent Board Committee and the Independent Shareholders on the Conditional Master Agreement, the Caps and the Continuing Connected Transactions contemplated thereunder is set out on pages 35 to 51 of this circular.

A notice convening the SGM to be held at 20/F., S.A.S. Tower, 55 Lei Muk Road, Kwai Chung, New Territories, Hong Kong on 1 March 2022 at 11:00 a.m. is set out on pages 57 to 58 of this circular. Whether or not you are able to attend and/or vote at the SGM in person, you are requested to complete the enclosed form of proxy and return it to the Company's branch share registrar in Hong Kong, Tricor Secretaries Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong in accordance with the instructions printed thereon as soon as possible but in any event not later than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from subsequently attending and voting in person at the SGM or any adjournment thereof (as the case may be) should you so wish.

PRECAUTIONARY MEASURES FOR THE SGM

In compliance with the Hong Kong Government's directive on social distancing, personal and environmental hygiene, and the guidelines issued by the Centre for Health Protection of the Department of Health on the prevention of coronavirus disease 2019 ("COVID-19"), the Company will implement the following precautionary measures at the SGM including, without limitation:

- compulsory body temperature checks;
- wearing of surgical face masks;
- no distribution of corporate gift or refreshment;
- mandatory health declaration – anyone subject to the Hong Kong Government's prescribed quarantine or who has travelled overseas within 14 days immediately before the date of the SGM will be denied entry into the SGM venue;
- appropriate seating arrangement in line with the guidance promulgated by the Hong Kong Government will be made.

The Company strongly advises the Shareholders to appoint the chairman of the SGM as their proxy to vote on the resolutions as an alternative to attending the SGM in person. Subject to the development of COVID-19, the Company may implement further changes and precautionary measures and may issue further announcement on such measures as appropriate.

CONTENTS

	<i>Page</i>
DEFINITIONS	1
LETTER FROM THE BOARD	6
LETTER FROM THE INDEPENDENT BOARD COMMITTEE	34
LETTER FROM GRAM CAPITAL	35
APPENDIX – GENERAL INFORMATION	52
NOTICE OF THE SGM	57

DEFINITION

In this circular, unless the context otherwise requires, the following expressions have the following meanings:

“ Announcement ”	the announcement issued by the Company dated 2 December 2021;
“ associate(s) ”	have the meaning ascribed to it in the Listing Rules;
“ BES PRODUCTS ”	Any and all business equipment and solutions products (whether under the brand name of “SHARP” or any other brand name owned or controlled by SHARP) currently being produced by or for or under the authority of SHARP which shall be the integrated white board, information display panels, video wall, digital signage, copier, multifunction peripheral, document system software and consumables, and all new products;
“ Board ” or “ Directors ”	The board of directors of the Company;
“ Bye-laws ”	The bye-laws of the Company;
“ Caps ”	The Purchase Caps and the Sale Caps;
“ Company ”	S.A.S. Dragon Holdings Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange;
“ Conditional Master Agreement ”	The conditional master agreement dated 2 December 2021 made between the Company and Hon Hai which governs the sales and purchase of electronic components and distribution of SHARP PRODUCTS and other brand products under the Hon Hai Group between the Group and Hon Hai and its subsidiaries or associates for the 3 financial years from 1 January 2022 to 31 December 2024 (both dates inclusive);
“ connected person(s) ”	have the meaning ascribed to it under the Listing Rules;
“ Continuing Connected Transactions ”	The Purchase Transactions and the Sale Transactions;
“ Distribution Agreements ”	(1) The distributorship agreement made between FIT Taiwan and S.A.S. Electronic (as distributor) dated 1 January 2021 in relation to the distribution of Hon Hai’s electronic components and other products, such as connector, cable and accessory, by S.A.S. Electronic, in Taiwan, East China, South China and North China;

DEFINITION

- (2) The distributorship agreement made between Huai An Fulitong Trading and S.A.S. Electronic (Shenzhen) (as distributor) dated 30 November 2020 in relation to the distribution of Hon Hai's electronic components and other products, such as connector and cable, by S.A.S. Electronic (Shenzhen), in South China and East China;
- (3) The distribution agreement made between SHARP HK and S.A.S. Microelectronics dated 7 September 2021 in relation to appointing S.A.S. Microelectronics to be the distributor of various SHARP's electronic components;
- (4) The distribution agreement made between SHARP and S.A.S. Electric (as distributor) dated 9 August 2021 in relation to the distribution of BES PRODUCTS in Hong Kong and Macau by S.A.S. Electric for the purpose of distributing BES PRODUCTS and to provide appropriate repair and maintenance services for the BES PRODUCTS sold by S.A.S. Electric;

“East China”

Zhejiang Province, Jiangsu Province, Shanghai Municipality, Shandong Province, Fujian Province, Jiangxi Province and Anhui Province;

“EC PRODUCTS”

All Electronic Components (whether under the brand name of SHARP or any other brand name owned or controlled by SHARP) currently being produced by SHARP (or its direct or indirect subsidiaries, whether in Japan or elsewhere) or under the authority of SHARP or hereafter be produced or developed;

“Electronic Components”

All kinds of electronic components excluding displays, panels, LCD panels or LCD display. For clarification of understanding, the said electronic components do not include any finished products and photovoltaic products and any accessories, repair and replacement parts and consumables thereof;

“FIT Taiwan”

Foxconn Interconnect Technology Limited Taiwan Branch, a company incorporated in Taiwan and a non-wholly owned subsidiary of Hon Hai;

“Foxconn”

Foxconn Holding Limited, a company incorporated in the British Virgin Islands, a wholly owned subsidiary of Hon Hai and a substantial shareholder of the Company;

“Group”

The Company and its subsidiaries;

DEFINITION

“Gram Capital” or “Independent Financial Adviser”	Gram Capital Limited, a licensed corporation to carry out type 6 (advising on corporate finance) regulated activities as defined under the Securities and Futures Ordinance (Cap. 571 of Hong Kong Laws) and the independent financial adviser to the independent board committee and the Independent Shareholders in relation to the Conditional Master Agreement;
“Hon Hai”	Hon Hai Precision Industry Company Limited (鴻海精密工業股份有限公司), a company incorporated in Taiwan with limited liability and the shares of which are listed on the Taiwan Stock Exchange Corporation;
“Hon Hai Group”	Hon Hai, Foxconn, FIT Taiwan, Huai An Fultong Trading, SHARP and their respective subsidiaries or associates;
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC;
“Huai An Fultong Trading”	Huai An Fultong Trading Company Limited (淮安市富利通貿易有限公司), a company incorporated in the PRC with limited liability, and a non-wholly owned subsidiary of Hon Hai;
“Independent Board Committee”	An independent board committee of the Company comprising Mr. Wong Tak Yuen, Adrian, Mr. Liu Chun Ning, Wilfred, Mr. Cheung Chi Kwan and Mr. Wong Wai Kin to advise the Independent Shareholders in relation to the Conditional Master Agreement, the Caps and the Continuing Connected Transactions contemplated thereunder;
“Independent Shareholder(s)”	Shareholder(s) other than Hon Hai, FIT Taiwan, Foxconn, Huai An Fultong Trading, SHARP and any of their respective associates;
“Latest Practicable Date”	10 February 2022, being the latest practicable date prior to the printing of this circular for ascertaining certain information included in this circular;
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange;
“Macau” or “Macao”	The Macao Special Administrative Region of the PRC;
“North China”	Henan Province, Beijing Municipality, Tianjin Municipality, Shanxi Province, Inner Mongolia Autonomous Region;
“percentage ratios”	The percentage ratios calculated based on the requirements under Rule 14.07 of the Listing Rules;

DEFINITION

“Previous Master Agreement”	The master agreement entered into between the Company and Hon Hai dated 28 December 2018 which governs the continuing connected transactions between the Group and the Hon Hai Group made and to be made during the period between 1 January 2019 and 31 December 2021 (both dates inclusive);
“PRC”	The People’s Republic of China excluding Hong Kong, Macau Special Administrative Region and Taiwan;
“Purchase Agreement”	The purchase agreement dated 8 March 2013 made between Hon Hai and S.A.S. Electronic (Shenzhen), a wholly-owned subsidiary of the Company, in relation for purchase of electronic components and other products by Hon Hai and other purchase agreement(s) which may be made between the Group and Hon Hai for the purpose of purchasing electronic components and other products by Hon Hai;
“Purchase Caps”	For the purpose of Chapter 14A of the Listing Rules, means the annual caps of HK\$2,600 million, HK\$3,000 million and HK\$3,500 million for each of the three financial years ending 31 December 2022, 2023 and 2024 respectively in respect of the Purchase Transactions;
“Purchase Transactions”	The purchases of electronic components and other products by the Group from the Hon Hai Group under the Conditional Master Agreement;
“S.A.S. Microelectronics”	S.A.S. Microelectronics Company Limited (時保晶電有限公司), a limited company incorporated in Hong Kong and a wholly owned subsidiary of the Company;
“Sale Caps”	For the purpose of Chapter 14A of the Listing Rules, means HK\$3,200 million, HK\$3,700 million and HK\$4,300 million for each of the three financial years ending 31 December 2022, 2023 and 2024 respectively in respect of the Sale Transactions;
“Sale Transactions”	The sale of electronic components and other products (including distribution arrangements) by the Group to the Hon Hai Group under the Conditional Master Agreement;
“S.A.S. Electric”	S.A.S. Electric Company Limited (時捷電氣有限公司), a company incorporated in Hong Kong and a wholly owned subsidiary of the Company;
“S.A.S. Electronic”	S.A.S. Electronic Company Limited (時捷電子有限公司), a company incorporated in Hong Kong and a wholly owned subsidiary of the Company;

DEFINITION

“S.A.S. Electronic (Shenzhen)”	S.A.S. Electronic (Shenzhen) Co. Ltd. (時捷電子科技(深圳)有限公司), a company incorporated in Shenzhen and a wholly owned subsidiary of the Company;
“SFO”	The Securities and Futures Ordinance (Cap. 571 of Hong Kong Laws);
“SGM”	the special general meeting of the Company to be held at 20/F., S.A.S. Tower, 55 Lei Muk Road, Kwai Chung, New Territories, Hong Kong on 1 March 2022 at 11:00 a.m. to approve the Conditional Master Agreement, the Caps and the Continuing Connected Transactions contemplated thereunder, notice of which is set out on pages 57 to 58 of this circular;
“Shareholder(s)”	Holder(s) of shares of the Company;
“SHARP”	SHARP Corporation, a company incorporated in Japan and a non-wholly owned subsidiary of Hon Hai;
“SHARP HK”	SHARP HONG KONG LIMITED, a company incorporated in Hong Kong with limited liability and a wholly owned subsidiary of SHARP;
“SHARP PRODUCTS”	EC PRODUCTS and BES PRODUCTS;
“South China”	Guangdong Province, Guangxi Province, Hainan Province, Hong Kong and Macau;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“substantial shareholder(s)”	have the meaning ascribed to it in the Listing Rules;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong; and
“%”	Per cent.

LETTER FROM THE BOARD



S.A.S. Dragon Holdings Limited

(incorporated in Bermuda with limited liability)

(Stock Code: 1184)

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
Mr. Tsui Chi Wing, Eric

Independent Non-executive Directors:

Mr. Wong Tak Yuen, Adrian
Mr. Liu Chun Ning, Wilfred
Mr. Cheung Chi Kwan
Mr. Wong Wai Kin

Registered Office:

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Principal Office:

19/F., S.A.S. Tower,
55 Lei Muk Road,
Kwai Chung,
New Territories,
Hong Kong

14 February 2022

To the Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

Reference is made to the announcements dated 23 November 2006, 18 November 2009, 9 April 2010, 12 November 2012, 9 November 2015, 30 November 2015, 14 December 2015, 2 May 2017 and 28 December 2018 as well as the circulars dated 12 December 2006, 3 December 2009, 29 April 2010, 3 December 2012, 18 December 2015 and 15 January 2019 in relation to the Continuing Connected Transactions of the Company. Since the Previous Master Agreement dated 28 December 2018 for the sales and purchases of electronic components and other products between the Group and the Hon Hai Group will expire on 31 December 2021, in anticipation of such continuing sales and purchases of electronic components and distribution of SHARP PRODUCTS and other brand products under the Hon Hai Group between the Group and the Hon Hai Group in future, on 2 December 2021, the Company entered into the Conditional Master Agreement with Hon Hai which governs the sales and purchases of

LETTER FROM THE BOARD

electronic components and distribution of SHARP PRODUCTS and other brand products under the Hon Hai Group to be made for the next 3 financial years during the period between 1 January 2022 and 31 December 2024 (both dates inclusive).

The Major terms of the Conditional Master Agreement and the Previous Master Agreement are substantially the same. The purposes of this circular are:

- (i) to provide the Shareholders with further details of the Conditional Master Agreement, the Caps and the Continuing Connected Transactions contemplated thereunder;
- (ii) to set out the recommendation of the Independent Board Committee to the Independent Shareholders and the advice of the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to Conditional Master Agreement, the Caps and the Continuing Connected Transactions contemplated thereunder; and
- (iii) to give the Shareholders the notice of the SGM and other information in accordance with the requirements of the Listing Rules at which resolutions will be proposed to the Independent Shareholders to consider and, if thought fit, approve the Conditional Master Agreement, the Caps and the Continuing Connected Transactions contemplated thereunder.

THE CONDITIONAL MASTER AGREEMENT

The Company entered into the Conditional Master Agreement with Hon Hai on 2 December 2021 which governs the sales and purchases of electronic components and distribution of SHARP PRODUCTS and other brand products under the Hon Hai Group to be made for the next 3 financial years during the period between 1 January 2022 and 31 December 2024 (both dates inclusive). The principal terms of the Conditional Master Agreement are set out below:

Date:	2 December 2021
Parties:	The Company Hon Hai
Subject matter:	sales and purchases of electronic components and distribution of SHARP PRODUCTS and other brand products under the Hon Hai Group between the Group and the Hon Hai Group
Term:	from 1 January 2022 and 31 December 2024

The Conditional Master Agreement is conditional upon the approval of the Conditional Master Agreement and the Caps by the Independent Shareholders at the SGM.

LETTER FROM THE BOARD

Under the Conditional Master Agreement, the parties agree that the Continuing Connected Transactions shall be on normal commercial terms and, in particular:

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

Hon Hai will procure members of the Hon Hai Group to comply with the terms and conditions of the Conditional Master Agreement.

Certain members of the Group and certain members of the Hon Hai Group have entered or may from time to time enter into agreements to provide for more detailed terms on certain Continuing Connected Transactions. Any such agreements (including the Distribution Agreements and the Purchase Agreement) made or to be made between the relevant members of the Group and relevant members of the Hon Hai Group in respect of the Continuing Connected Transactions will be subject to the Conditional Master Agreement.




LETTER FROM THE BOARD

SALES AND PURCHASES BETWEEN THE GROUP AND THE HON HAI GROUP

Established in Taiwan in 1974, Hon Hai, a company listed on Taiwan Stock Exchange (Stock Code: 2317) is the world's largest electronics manufacturer. Hon Hai is also the leading technological solution provider and it continuously leverages its expertise in software and hardware to integrate its unique manufacturing systems with emerging technologies. By capitalizing on its expertise in Cloud Computing, Mobile Devices, IoT, Big Data, AI, Smart Networks, and Robotics/Automation, the Group has expanded not only its capabilities into the development of electric vehicles, digital health and robotics, but also three key technologies – AI, semiconductors and new-generation communications technology – which are key to driving its long-term growth strategy and the four core product pillars: Consumer Products, Enterprise Products, Computing Products and Components and Others. This "three plus three" integration represents the Hon Hai's key strategy for long-term development and Hon Hai is determined to provide comprehensive and integrated solutions to its worldwide prominent customers and become an all encompassing intelligent living service provider.

The Group is one of the suppliers of the Hon Hai Group. The Group acts as an agent between the Hon Hai Group and other suppliers to sell electronic components to the Hon Hai Group. The Group acts as a distributor of the Hon Hai Group to purchase electronic components from the Hon Hai Group and sell the same to the end-customers of the Group. In addition, the Group is a distributor of SHARP PRODUCTS.

The Group specialises in design, development, sourcing, quality assurance and logistics management of global proprietary electronic components and semiconductor products including chipset solutions, display panels, memory chips, power supply system solutions, multimedia system solutions, PEMCO, IoT home automation solutions, light-emitting diode (“LED”) lighting solutions and other premier solutions for a wide range of applications for mobile, consumer electronic, computer and networking, telecommunication and LED lighting and display products. The Group is also a distributor of SHARP PRODUCTS.

The Group also distributes innovative environmental-friendly lifestyle enhancement finished SHARP PRODUCTS and our owned brands of Light in Motion , LIM InfraSystems  and Square  in the Asia Pacific region.

For sales of electronic components by the Group to the Hon Hai Group, the Hon Hai Group would conduct sourcing in advance and instruct the Group to purchase the electronic components from the designated supplier and resell the same to the Hon Hai Group. The Hon Hai Group adopts an “Integrated Supplier Approach”, that is, a system to simplify purchasing practice by consolidating its supply base. Hon Hai Group would purchase the electronic components through the Group as the Hon Hai Group treats the Group as its source solution so the Hon Hai Group would not have to monitor its relationship with overwhelmed number of suppliers.

For purchases of electronic components by the Group from the Hon Hai Group, the Group's end customers would only instruct the Group to purchase the electronic components from the Hon Hai Group and resell the same to them. The Group's end customers could not directly purchase the electronic components from the Hon Hai Group.

For further information on the basis for determining the prices for purchases and sales of the products, please refer to the section headed “Pricing Policy”.

Note: The information of the products manufactured by the Hon Hai Group is extracted from website of Hon Hai at <https://www.foxconn.com/en-us/about/group-profile>.

LETTER FROM THE BOARD

INTERNAL POLICIES AND PROCEDURES

Although it is not part of the provisions in the Conditional Master Agreement, the members of the Group will follow the internal policy and procedures as set out below when entering into, or deciding whether to enter into any sale or purchase transactions, with members of the Hon Hai Group.

Payment Terms of Sales made by the Group

Under the Purchase Agreement, the members of the Group would set out in the settlement date in all purchase orders made by the members of the Hon Hai Group. The purchaser, being a member of the Hon Hai Group, will be required, under the Purchase Agreement and as a term of the relevant purchase order, to settle the total price for all the products supplied under that purchase order within 120 days from the date of the purchase order being made. Under the two-way business partnership between the Group and the Hon Hai Group, except the payment terms for the purchases of SHARP PRODUCTS made by the Group, the payment terms of sales and purchases made by the Group are the same. Considering that the payment terms of sales made by the Group to some independent third parties is also within 120 days from the date of the purchase order being made, the Company believes that the payment terms of sales made by the Group to the Hon Hai Group are fair and reasonable and on normal commercial terms or better and consistent with the payment terms generally included in the contracts for the supply of electronic components by the Group to customers which are independent third parties and the market practice.

Payment Terms of Purchases made by the Group (not related to SHARP PRODUCTS)

Under the Distribution Agreements (1) and (2), the members of the Group which made purchases from the member of the Hon Hai Group would settle the price of the products within 120 days from the date of delivery of the products. Under the two-way business partnership between the Group and the Hon Hai Group, except the payment terms for the purchases of SHARP PRODUCTS made by the Group, the payment terms of sales and purchases made by the Group are the same. Considering that the payment terms in relation to the purchases made by the Group from some independent third parties are cash on delivery, or within 15 days from the date of bill of lading, or within 30 days after the airway bill date, or within 15 days following the end of the month, the Company believes that the payment terms of purchases made by the Group from the Hon Hai Group are fair and reasonable and on normal commercial terms or better and consistent with the payment terms generally included in the contracts for the purchases of electronic components by the Group from suppliers which are independent third parties and the market practice.

Payment Terms of Purchases made by the Group (Related to SHARP PRODUCTS)

Under the distribution agreements entered with SHARP, which are Distribution Agreements (3) and (4), the members of the Group would settle the price of the products within 30 days after invoice date or 30 days following the end of the month. Although the Group does not have similar purchase order to compare, the current practice is that the payment terms in relation to the purchases made by the Group from some independent third parties are 30 or 60 days following the end of the month. Based on this fact, the Company believes that the payment terms of purchases related to SHARP PRODUCTS made by the Group from the Hon Hai Group are fair and reasonable.

LETTER FROM THE BOARD

The payment terms in relation to the purchase made by the Group from independent third parties are different as to the products related or not related to SHARP PRODUCTS because different independent third parties have different product nature, such as customerised and non customerised, different terms of delivery, different delivery time and different creditability related to size and reputation of the vendor, therefore their bargaining power varies and it is reasonable to expect discrepancy in payment terms.

Pricing Policies and Internal Procedures

Pricing Policy

Since the Group engages in trading, distribution, sourcing, quality assurance and logistics management of electronic and semiconductor products, the Group has been trading with various suppliers and customers and one of which is the Hon Hai Group. Generally speaking, the market competition in the electronic and semiconductor products trading is very keen and the prices of electronic and semiconductor products are highly transparent and competitive.

For sales to be transacted with the Hon Hai Group, the sale executives of the Group will have 3-party meetings with each of our main suppliers and representatives from the Hon Hai Group on a quarterly basis to discuss the overall prices and quantities for each product categories. The suppliers and representatives from the Hon Hai Group will agree upon the prices and quantities of various products to be traded. Determination of the prices for sales with Hon Hai is generally with reference to the standard price range, prevailing market prices of those or similar products, or the gross profit mark-up rate not below 1.5%.

For purchases of products not related to SHARP PRODUCTS, the Group will determine the prices for purchases of such products with Hon Hai with reference to the cost-plus basis with an overall mark-up rate not below 3%. For purchases of SHARP PRODUCTS, the Group will determine the prices for purchases of SHARP PRODUCTS with Hon Hai with reference to the cost-plus basis with an overall mark-up rate not below 4%.

The Group has set up internal pricing policies to ensure that the terms of the Continuing Connected Transactions are fair and reasonable and on normal commercial terms or better.

Price Policy for Sales

As the Group's internal policy, for sales made by the Group to the Hon Hai Group, for the purpose of ensuring the terms of sales being fair and reasonable, the Group will determine the prices of products to be sold to the Hon Hai Group based on the following factors:

- (i) the standard price range of all products based on current and historical selling price range of the product or similar products in different quantities maintained by the Group in our central database. The standard price list is based on sales to all parties (including both independent third parties and the Hon Hai Group). The central database will be updated monthly by the sales manager in the members of our Group. The Group maintains the records of all products where information, such as inventory's current and historical price range and historical quantities traded, is kept and updated from time to time. When determining the standard price range set out in the list of standard price, the quantity and all the direct costs associated with each of the products, including but not limited to the costs of the components, logistics costs,

LETTER FROM THE BOARD

interest costs and other costs incurred in or incidental to the trading are taken into account. The standard price range maintained in our central database is the most often adopted factor in determination of our sale prices. The standard price list is applicable to all parties including independent third parties and the Hon Hai Group. Each product will have its own standard price list. It is fair and reasonable to adopt the standard price range for each of the product in determination of the sales price to Hon Hai when the standard price list based on transactions with independent third parties will be referred and the current and historical selling price range of the product or similar products in different quantities maintained by the Group will be considered. The Company can ensure that the proposed sale to Hon Hai Group is fair and reasonable even if the standard price list is based on sales to all parties (including both independent third parties and the Hon Hai Group) as sales to the Hon Hai Group only accounts for less than 10% of the total sales in the financial year ended 31 December 2020, the standard price list is a fair and reasonable reference. Besides the standard price list, the Company would also generate a separate price list only based on sales to independent third parties and make comparison with the proposed sale to Hon Hai Group to make sure the transaction is fair and reasonable. One circumstance under which factor (i) is inapplicable for determination of sale price is where there is no sale to independent third parties and the Hon Hai Group is the only transacting party. When this factor (i) is inapplicable, our Group will consider factor (ii) and (iii) below in determination of our sale price. According to our records, for sales made by the Group to the Hon Hai Group, no sales price has been set lower than the standard price range;

- (ii) the Group will determine the price of products to be sold to the Hon Hai Group based on the experience of the Group's management or the dealings with other players in the market, such as referring to (i) the prevailing market price range of those similar products, (ii) two price quotations or two other contemporaneous transactions with independent third parties in respect of similar products and similar quantities (if any), and (iii) any available market information. As the market of electronic components trading is highly competitive and transparent, the pricing of products sold to the Hon Hai Group will be set at or very close within the prevailing market price range, but not below the prevailing market price range. Although there is no publicly available information or "market index" for the electronic components sold by the Group to the Hon Hai Group, the Group's management together with the staff in the sales department which include more than 200 employees who engage in the sales of products are well familiarised with market of electronic components trading as well as the prevailing market price range of those products; and
- (iii) whenever the Group adopts factor (ii) above to determine the sales price or in case where none of the above is applicable, the price shall be determined by the cost-plus method, such as base on the cost of goods sold and reasonable costs plus a profit margin with an overall mark-up rate not below 1.5%. In determining the price, the Group will base on the cost of goods sold and reasonable costs, including the operating and administration costs, incurred in providing the trading services, plus a profit margin with an overall mark-up rate not below 1.5%. Considering upon the fact that the Conditional Master Agreement governs the sales and purchase of electronic components and distribution of SHARP PRODUCTS and other brand products under the Hon Hai Group between the Group and Hon Hai and its subsidiaries or associates for the next 3 financial years, i.e. from 1 January 2022 to 31 December 2024, such profit margin is determined by reference to the average gross profit margin rates of our Group

LETTER FROM THE BOARD

in the last three financial years, i.e. 4.28%, which were 3.67%, 4.88% and 4.3% for the financial year ended 31 December 2018, 2019 and 2020 respectively. In addition to our average gross profit margin rate, we also take into consideration of other pricing factors, including the quantity, the logistics costs which is affected by the location(s) of the products to be delivered and the payment terms with suppliers. The difference in the overall gross profit mark-up rate depends on the various product lines and the quantity of goods supplied by the Group to the Hon Hai Group in which the Group supplies to the Hon Hai Group. For product lines which are of advanced technology or higher-end, the Group can achieve a higher gross profit margin while for matured products such as passive components, the Group will record a lower profit margin rate. Nonetheless, the average gross profit margin rate is a presumed reasonable profit margin rate for reference only. Considering that different products have different gross profit margin, the price shall be determined by the cost-plus method, based on the cost of goods sold and reasonable costs plus a profit margin with an overall mark-up rate not below 1.5%.

The above policies shall be followed regardless of whether the purchasers of the products are independent third parties or a connected person of the Group, including the Hon Hai Group. Therefore, the prices of products supplied to the Hon Hai Group under the Conditional Master Agreement are determined in accordance with the same policies and procedures applied to determine the price of products sold to the independent third parties.

The overall gross profit mark-up rate depends on the various product lines and the quantity of goods supplied by the Group to the Hon Hai Group. The mark-up rate of not below 1.5% is the minimum mark-up rate the Group bargained after rounds of negotiation with the Hon Hai Group, the actual gross profit margin rates of the Group for sale to the Hon Hai Group was between 3.6% to 3.8% for the financial years ended 31 December 2018, 31 December 2019 and 31 December 2020 and the ten months ended 31 October 2021.

A lower profit margin of sales to the Hon Hai Group than that of sales to all customers is justified, given the fact that the total transactions with the Hon Hai Group are often in large volume and quantity (i.e. Hon Hai Group is one of the Group's large customers), the logistics costs with the Hon Hai Group are relatively low, and the Hon Hai Group has a good credit thus avoid the bad debt risk. It is further confirmed by the Board that the percentage of the maximum costs and resources saved such as finance costs, account receivable insurance, logistics charge, warehouse staff cost and warehouse depreciation in the sales to the Hon Hai Group as compared to sales to other customers is between 0.45%-1.04% of revenue for the financial years ended 31 December 2018, 31 December 2019, 31 December 2020 and the six months ended 30 June 2021, thus even though the average gross profit margin of sales to the Hon Hai Group (namely between 3.6% and 3.8%) is in general lower than that of sales to all customers (namely between 4.3% and 4.88%), given that the Group has enough capacity to handle the sale to the Hon Hai Group and a reasonable gross profit margin can be achieved, the Board considers that it makes economic sense to continue the Group's business with the Hon Hai Group on the sale even at a mark-up rate of not below 1.5%.

For determining the overall mark-up rate, the Group would refer to the gross profit ratios of other competitors which (i) are also mainly in the business of purchasing and selling electronic components, such as connectors and integrated circuits, (ii) have similar size of turnover as the Group, and (iii) have no own factory to manufacture electronic components. For example, the Group refers to the gross profit ratios of the Supreme Electronics Company Limited which is a company listed on Taiwan Stock Exchange (Stock Code: 8112) and Edom Technology Company Limited which is a company listed on Taiwan Stock Exchange (Stock Code: 3048).

LETTER FROM THE BOARD

Referring to the 1st quarter reports of the Supreme Electronics Company Limited and 3rd quarter reports of the Edom Technology Company Limited in 2021, their gross profit ratios are both around 3%. Since the sale to the Hon Hai Group has gross profit margin rates of between 3.6% and 3.8% which is slightly higher than the said gross profit ratios 3% in the market, the Group believes that the transaction were on an arm's length basis or terms no less favourable to the Group than terms available to or from independent third parties.

The overall gross profit mark-up rates for sale to the Hon Hai Group for the financial year ended 31 December 2018, 2019 and 2020 are as follows:

	For the financial year ended 31 December 2018	For the financial year ended 31 December 2019	For the financial year ended 31 December 2020
Overall gross profit mark-up rates for sale to the Hon Hai Group (%)			
1.5 – 2	0%	10%	14%
2.01 – 3	30%	17%	15%
3.01 or above	<u>70%</u>	<u>73%</u>	<u>71%</u>
Total	100%	100%	100%

As shown, most sales to the Hon Hai Group have more than 3% of the gross profit mark-up rate for the three financial years ended 31 December 2018, 2019 and 2020. The mark-up rate of not below 1.5% is only the minimum mark-up rate the Group bargained after rounds of negotiation with the Hon Hai Group and mark-up rate of less than 3% in general only account for less than 30% of the sale for the three financial years ended 31 December 2018, 2019 and 2020. In view of the above, the Board considers that the overall gross profit markup rate not below 1.5% is still fair and reasonable and on normal commercial terms.

Notes:

- (i) The 1st quarter reports of Supreme Electronics Company Limited in 2021 is extracted from <http://www.supreme.com.tw/File/FR/CFR2021Q1T.pdf>
- (ii) The 3rd quarter reports of Edom Technology Company Limited in 2021 is extracted from https://www.edomtech.com/en/report/ins.php?index_m_id=158
- (iii) The Ricoh Group Integrated Report 2021 is extracted from https://www.ricoh.com/-/media/Ricoh/Sites/com/about/integratedreport/pdf2021_e/all_en.pdf?rev=7d67d513142148a79a4256ad2a22f4b9
- (iv) The 2nd quarter reports of KYOCERA CORPORATION in 2021 is extracted from https://global.kyocera.com/ir/library/pdf/20-f/FY22_2Q_qr_e.pdf

Price Policy for Purchases

Purchases made by the Group (not related to SHARP PRODUCTS)

The current price negotiation mechanism in relation to the purchases of products, which are not related to SHARP PRODUCTS, made by the Group from the Hon Hai Group involves the end-customers and the Hon Hai Group first agreeing the price (i.e., the Group's selling price to the end-customers), which is then followed by the Group negotiating with the Hon Hai Group on its purchase price from the

LETTER FROM THE BOARD

Hon Hai Group with reference to the mark-up rate not below 3%. The mark-up rate for purchases (not related to SHARP Products) for the three financial years ended 31 December 2018, 2019 and 2020 was 3.6%, 3.5% and 3.7% respectively. As the Group's internal policy, for purchases made by the Group from Hon Hai Group, the Group will endeavour to ensure the terms of the purchases being fair and reasonable by reviewing the prices of products to be purchased from the Hon Hai Group based on the following factors:

- (i) as the members of the Hon Hai Group are the only approved vendor(s) designated by certain end-customers of the Group and the price of purchase have been pre-agreed by the end-customer with member of the Hon Hai Group with a proposed margin between the purchase price and resale price of the products to the Group as the commission to the Group as distributor or dealer of the products. Although the purchase prices have been pre-determined between the end-customers and the member of the Hon Hai Group, the Group will review the proposed margin with the members of the Hon Hai Group to ensure such margin is a reasonable profit margin to the Group. If the Group considers such proposed margin is not profitable, the Group will counter-offer and negotiate with members of the Hon Hai Group for a higher rate, failing which the Group will reject such business; and
- (ii) the Group will ensure the prices for products to be purchased from Hon Hai are sufficient to maintain reasonable profit margin after considering the target gross profit margin in respect of the types of products to be sold on a cost-plus basis with an overall mark-up rate not below 3% over our purchase price of the products. Such mark-up rate is determined with reference to the fixed commission percentage pre-agreed among the Group, Hon Hai and end-customers and the average gross profit margin of the Group which was 4.28% for the three financial years ended 31 December 2018, 2019 and 2020 respectively. In addition to the average gross profit margin rate, our Group will also take into account other factors, including the logistics costs incurred by the Group in the distribution of products from the Hon Hai Group and the payment terms with the end-customers where longer credit period will increase the interest expenses of the Group, in causing the group to obtain additional financing to cover the cost of sale to the end-customers during the credit period. Nonetheless, the average gross profit margin rate is a presumed reasonable profit margin rate for reference only. Considering that different products have different gross profit margin, the price shall be determined on a cost-plus basis with an overall mark-up rate not below 3% over our purchase price of the products.

The factor (i) set out above was a part of the Conditional Master Agreement for the Group to determine the purchase price of the purchases to be made by the Hon Hai Group from the Group which was specifically agreed to cater for the connected transactions to be made between the Group and the Hon Hai Group. Save for disclosed above, the Group has not purchased any similar products from independent third parties for end-customers which do not require the Hon Hai Group as the designated vendor. Put it another way, the Hon Hai Group is not the sole Vendor of the Group, but for those products that could be provided by the Hon Hai Group or other independent suppliers, all of our existing customers have instructed the Group to purchase the said products from the Hon Hai Group. Since the Hon Hai Group is the only vendor designated by end-customers with the purchase prices of products pre-agreed between the Hon Hai Group and end-customers, and no information regarding to the rates offered by the Hon Hai Group to other distributors is available for the Group to compare, the Group will adhere to factor (ii) above in reviewing our purchase price rather than comparing with market prices of similar products failing which the Group will reject such proposed business since the Group will consider such business is not profitable.

LETTER FROM THE BOARD

In engaging other distribution and trading business by the Group, the Group shall, regardless of whether the sellers of the products which can be sourced from Hon Hai are independent third parties or a connected person of the Group, including the Hon Hai Group, adhere to factor (ii) above when reviewing the purchase prices provided by suppliers for products which can be sourced from Hon Hai. Therefore, the prices of products sourced from the Hon Hai Group under the Conditional Master Agreement are determined in accordance with the same mechanism and procedures applied to the independent third parties. Hence, the Group considers that the terms of purchase made by the Group from the Hon Hai Group are fair and reasonable and on normal commercial terms or better.

Purchases made by the Group (related to SHARP PRODUCTS)

For the current price negotiation practice in relation to the purchases of SHARP PRODUCTS, the Group will ensure the products are sold on a cost-plus basis with a mark-up rate not below 4% over our purchase price of the products. The mark-up rate for purchases in relation to EC Products for the three financial years ended 31 December 2018, 2019 and 2020 was 9.0%, 9.4% and 9.5% respectively. The mark-up rate for purchases in relation to BES Products for the three financial years ended 31 December 2018, 2019 and 2020 was 56%, 47% and 55% respectively.

The mark-up rate for purchases in relation to EC Products and BES Products for the three financial years ended 31 December 2018, 2019 and 2020 are as follows:

	For the financial year ended 31 December 2018	For the financial year ended 31 December 2019	For the financial year ended 31 December 2020
Mark-up rate for purchases in relation to EC Products (%)			
4 – 5	6%	1%	1%
5.01 – 10	63%	57%	55%
10.01 or above	31%	42%	45%
Total	100%	100%	100%
	For the financial year ended 31 December 2018	For the financial year ended 31 December 2019	For the financial year ended 31 December 2020
Mark-up rate for purchases in relation to BES Products (%)			
4 – 5	0%	0.02%	0.01%
5.01 – 50	16.99%	16.75%	14.49%
50.01 or above	83.01%	83.23%	85.50%
Total	100%	100%	100%

LETTER FROM THE BOARD

The mark-up rate for purchases in relation to BES Products is substantially higher than that for purchases in relation to EC Products because the repair and maintenance services for the BES PRODUCTS could generate a significantly higher mark-up rate. Since around 0.01% to 6% of the EC Products and BES Products have mark-up rate of 4%–5% for the three financial years ended 31 December 2018, 2019 and 2020, the Board considers that the same pricing policy namely a cost-plus approach with mark-up rate of not below 4% for both EC Products and BES Products should be adopted for the purpose of clarity.

As the Group's internal policy, for purchases made by the Group from the Hon Hai Group, the Group will endeavour to ensure the terms of the purchases are fair and reasonable by reviewing the prices of products to be purchased from the Hon Hai Group based on the following factors:

- (i) Market Situation Review, such as reviewing on competitors, market prices, benchmark, and comparing products in similar model;
- (ii) Product Line Up – New Models Information Update;
- (iii) Projections prepared on the purchase quantity, sales quantity, market price reasonable gross profit ratio in future and set up fiscal budget plan;
- (iv) Comparison between the mutual agreed terms with the International Commercial Terms (INCOTERMS);
- (v) Take the final product cost provided by factories as reference;
- (vi) Price Support: Bulk Purchase Request or special deals for tender business;
- (vii) Selling Price: Corporate sales mainly conduct review on project base while channel sales will compare with market prices, review competitors' similar models and make gross profit ratio simulation before price set-up;
- (viii) If the Group considers such proposed margin is not profitable, the Group will counter-offer and negotiate with members of the Hon Hai Group for a higher rate, failing which the Group will reject such business opportunity; and
- (ix) the Group will ensure the price for products to be purchased from Hon Hai are capable of maintaining a reasonable profit margin after taking into account the target gross profit margin in respect of the types of SHARP PRODUCTS to be sold on a cost-plus basis with an overall mark-up rate not below 4% over our purchase price of the SHARP PRODUCTS. In addition to the reasonable profit margin, our Group will also take into account of other factors, including the logistics costs incurred by the Group in the distribution of products from the Hon Hai Group. If the Group considers such business is not profitable, the Group will reject the business opportunity.

LETTER FROM THE BOARD

The actual gross profit margin rates of the Group for distributing EC PRODUCTS was between 8.4% to 8.6% and the actual gross profit margin rates of the Group for distributing BES PRODUCTS was between 32% to 37% for the financial years ended 31 December 2019 and 31 December 2020 and the ten months ended 31 October 2021.

Referring to the 1st quarter reports of the Supreme Electronics Company Limited and 3rd quarter reports of the Edom Technology Company Limited in 2021, their gross profit ratios are both around 3%. Since the actual gross profit margin rates of the Group for distributing EC PRODUCTS was between 8.4% to 8.6% for the financial years ended 31 December 2019 and 31 December 2020 and the ten months ended 31 October 2021 is slightly higher than the said gross profit ratios 3% in the market, the Group believes that (i) the transaction were on an arm's length basis or terms no less favourable to the Group than terms available to or from independent third parties, and (ii) the mark-up rate not lower than 4% over our purchase price of products related to EC PRODUCTS is fair and reasonable and on normal commercial terms or better.

Referring to the Ricoh Group Integrated Report 2021 and 2nd quarter reports of KYOCERA CORPORATION in 2021, their gross profit ratios are around 34% and 29% respectively. Since the actual gross profit margin rates of the Group for distributing BES PRODUCTS was between 32% to 37% for the financial years ended 31 December 2019 and 31 December 2020 and the ten months ended 31 October 2021 is in line with the mark-up rate for competitors' models similar to the SHARP Products, the Group believes that (i) the transaction were on an arm's length basis or terms no less favourable to the Group than terms available to or from independent third parties, and (ii) the mark-up rate not lower than 4% over our purchase price of products related to BES PRODUCTS is fair and reasonable and on normal commercial terms or better.

Further, the Group also considers that the terms of purchase related to SHARP PRODUCTS made by the Group from the Hon Hai Group, such as the mark-up rate not below 4% over our purchase price of SHARP PRODUCTS from the Hon Hai Group, are fair and reasonable and on normal commercial terms or better after consideration of the said gross profit ratios and based on the experience of the Group's management.

Notes:

- (i) The 1st quarter reports of Supreme Electronics Company Limited in 2021 is extracted from <http://www.supreme.com.tw/File/FR/CFR2021Q1T.pdf>
- (ii) The 3rd quarter reports of Edom Technology Company Limited in 2021 is extracted from https://www.edomtech.com/en/report/ins.php?index_m_id=158
- (iii) The Ricoh Group Integrated Report 2021 is extracted from https://www.ricoh.com/-/media/Ricoh/Sites/com/about/integratedreport/pdf2021_e/all_en.pdf?rev=7d67d513142148a79a4256ad2a22f4b9
- (iv) The 2nd quarter reports of KYOCERA CORPORATION in 2021 is extracted from https://global.kyocera.com/ir/library/pdf/20-f/FY22_2Q_qr_e.pdf

Internal Control Measures

In order to ensure that the terms of sales and purchases from the Hon Hai Group are fair and reasonable and no worse than any independent third parties, the Group has adopted the following internal control measures:

LETTER FROM THE BOARD

Sales Transactions

- (i) in respect of the Sales Transactions, since the sales department of the Group has maintained the records of all products where information, such as inventory, current and historical prices and historical quantities traded, is kept, the sales executives, when determining the sales or purchases prices, will ensure that such prices are up to current prices and, in any case, no worse than independent third party. The information in the database will be updated monthly by our sales managers;
- (ii) for sales to be transacted with the Hon Hai Group, the sales executives of the Group will have 3-party meetings with each of our main suppliers and representatives from the Hon Hai Group on a quarterly basis to discuss the overall prices and quantities for each product categories. The suppliers and representatives from the Hon Hai Group will agree upon the prices and quantities of various products to be traded. By virtue of the participation, the Group is able to collect more updated information, such as the then industry level profit margin, technology level and popularity for each product categories. Such information would assist the Group to determine the then reasonable gross profit mark-up rate for each product categories;
- (iii) Under the internal control system of the Group, the selling price to the Hon Hai Group proposed by individual sales executives are submitted to the responsible sales directors who have extensive experience in trading and distribution and are familiar with the prevailing market prices for review and approval. At the same time, the finance department of the Group, upon receiving the submitted quotation on the selling price, will then double check with the two quotations obtained from independent third parties on similar products and similar quantity (if possible), to ensure that (i) there is no significant deviation between the two and that proper approval has been obtained for the proposed selling price, and (ii) the selling price shall not be below the standard price range, and (iii) if the selling price is determined based on prevailing market prices, the selling price shall have been determined by the cost-plus method. The finance department of the Group will also ensure that the selling price is on no less favourable rates than those available from or to independent third parties; and
- (iv) the sales directors and the finance department will also ensure that a reasonable profit margin, i.e. an overall mark-up rate not below 1.5%, is added to the estimated costs involving the cost of the components or products, logistics costs and the possible interest costs incurred in such transactions.

Purchase Transactions (not Related to SHARP PRODUCTS)

- (i) in respect of the Purchase Transactions not related to SHARP PRODUCTS, under the internal control system of the Group. The sales executives when negotiating with the Hon Hai Group will refer to the indicative prices suggested by the end-customers against the quotation given by the Hon Hai Group as well as the overall mark-up rate not below 3% over our purchase price of the products. The selling price to the end customers proposed by individual sales executives will then be submitted to the responsible sales directors for review and approval. Meanwhile, the finance department of the Group, upon receiving the submitted quotation on the selling price, will then double check the quotation from the Hon Hai Group to ensure that proper approval has been obtained from sales directors and the selling price is determined

LETTER FROM THE BOARD

based on the cost-plus basis of a mark-up rate not below 3% over our purchase price of the products as set out in factor (ii) in page 18 of this circular with reference to the price quote from the Hon Hai Group; and

- (ii) The sales directors and financial department shall ensure that terms are in compliance with the Conditional Master Agreement after they are jointly satisfied that (i) the pricing policies and internal procedures as set out in this section have been fully complied with; (ii) the transactions thereunder are on normal commercial terms; and (iii) the selling/purchase prices of the products are no less favourable to the Group than the prices at which such products are sold to the independent third parties, before member of the Group could accept the relevant purchase orders or confirm the purchase.

Purchase Transactions (Related to SHARP PRODUCTS)

- (i) Regarding to the distribution of various products under the brand name of “SHARP”, the sales department of the Group and representatives from the Hon Hai Group will agree upon the prices and quantities of various products to be traded. Under the internal control system of the Group, monthly meeting between sales team, marketing team, service person-in-charge will be held to review the sales results, make forecasts for the coming months and fix the purchase quantity for each model based on the sales forecast and orders in the past. The Group will review and make a forecast on the sales target, purchase plan and inventory by comparing with the budget and sales result in the last year. The Group will ensure that the selling price is determined based on the cost-plus basis which involves a mark-up rate not below 4% over our purchase price of the products and the price is on no less favourable rates than those available from or to independent third parties by reviewing the retail prices of SHARP PRODUCTS. If the Group considers the selling price of the products cannot be marked up 4% or higher than our purchase price for SHARP PRODUCTS, the Group will reject such business opportunity.

Annual Review

The Company will conduct monthly review to ensure the annual caps under the Conditional Master Agreement will not be exceeded. To further ensure that the transactions under the Conditional Master Agreement are on normal commercial terms no less favourable to the Group than to independent third parties, the external auditors of the Company will review and assess whether the transactions have been entered into in accordance with the Conditional Master Agreement. The Group has engaged external auditors to conduct annual review of the transactions under the Previous Master Agreement for the financial year ended 31 December 2020 in accordance with rule 14A.56 of the Listing Rules. The Group will continue to comply with rule 14A.56 to engage external auditors to conduct annual review of the Continuing Connected Transactions.

The independent non-executive Directors have expertise in respective areas of business management and process in-depth industry knowledge. With their professional knowledge and experience, the independent non-executive Directors advised the Company on its operation and management and would conduct random checks during annual review of the transactions under the Conditional Master Agreement, therefore, have contributed to provide checks and balance to protect the interests of the Company and the Company’s shareholders as a whole.

LETTER FROM THE BOARD

The Directors consider that such internal control procedures on pricing could effectively ensure that the pricing and terms of the transactions contemplated under the Condition Master Agreement are conducted on normal commercial terms no less favourable to the Group and in accordance with the pricing policy of the Group and in the interests of the Company and its shareholders as a whole. In view of the above internal control procedures, the Directors confirm that the purchase and selling prices from and to the Hon Hai Group are fair and reasonable and no less favourable than from and to independent third parties at the time of entering the transactions.

SALES AND PURCHASES CAPS

At present, the products sold by the Group to the Hon Hai Group can be divided into following categories:

- (i) semiconductors such as memory ICs, super I/O controllers, embedded controllers, etc.;
- (ii) electronic components including discrete components (such as transistors and diodes) and passive components (such as tan capacitor, multi-layer ceramic capacitors, varistors);
- (iii) accessory products such as PCBs, cables and connectors, metal parts, packaging parts and semi-finished modules of wireless modules, camera modules and sensor modules; and
- (iv) production and testing equipment.

On the other hand, the products currently bought by the Group from the Hon Hai Group can be divided into the following categories:

- a) Products which the end-customers have designated the Hon Hai Group as the only vendor (not related to SHARP PRODUCTS):
 - (i) cables and connectors and accessory;
 - (ii) keyboards parts and earphone parts; and
 - (iii) flexible print circuits.
- b) Products related to SHARP PRODUCTS:
 - (i) BES PRODUCTS.
 - (ii) EC PRODUCTS.

LETTER FROM THE BOARD

The following is a summary of the approximate amounts of transactions in respect of the sales and purchases of electronic components and other products between the Group and the Hon Hai Group for the financial years ended 31 December 2019 and 31 December 2020 and the ten months ended 31 October 2021 respectively:

	For the financial year ended 31 December 2019 <i>HK\$'000</i>	For the financial year ended 31 December 2020 <i>HK\$'000</i>	For the ten months ended 31 October 2021 <i>HK\$'000</i> (unaudited)
Purchases from Hon Hai Group	1,342,565	1,986,605	1,951,486
Sales to Hon Hai Group	1,867,647	1,671,841	2,110,445

The aggregated transaction amounts in respect of the sales and purchases of electronic components and distribution of SHARP PRODUCTS and other brand products under the Hon Hai Group between the Group and the Hon Hai Group for the two financial years ended 31 December 2019 and 31 December 2020 and the ten months ended 30 October 2021 have not exceeded (i) the purchase caps of HK\$1,700 million, HK\$2,200 million and HK\$2,700 million; and (ii) the sale caps of HK\$5,600 million, HK\$7,200 million and HK\$9,000 million, for each of the three financial years ended 31 December 2019, 2020 and 2021 respectively which were approved by the Independent Shareholders at the SGM on 31 January 2021.

Sales Cap

The sale of electronic components by the Group to the Hon Hai Group declined from 2018 to 2019, and declined slightly from 2019 to 2020 but had increased for the ten months period ended 31 October 2021 when compared with whole year of 2020. The Board estimates that the Sale Transactions will further increase in the next three financial years.

LETTER FROM THE BOARD

The following table and notes illustrate the estimate transaction amounts of the Sales Transactions for the year ending 31 December 2021 as well as the calculations to determine the proposed Sale Caps of the Continuing Connected Transactions for each of the three financial years ending 31 December 2022, 2023 and 2024 of the Group are set out below:

	For the financial year ended 31 December 2021 <i>HK\$'000</i> (estimated)	For the financial year ending 31 December 2022 <i>HK\$'000</i>	For the financial year ending 31 December 2023 <i>HK\$'000</i>	For the financial year ending 31 December 2024 <i>HK\$'000</i>
Existing business	2,521,400	2,304,000	2,664,000	3,096,000
New product lines:				
– new suppliers of the Group		115,200 <i>Note 1</i>	133,200 <i>Note 1</i>	154,800 <i>Note 1</i>
– existing suppliers of the Group		<u>460,800 <i>Note 1</i></u>	<u>532,800 <i>Note 1</i></u>	<u>619,200 <i>Note 1</i></u>
Total of new product lines		<u>576,000 <i>Note 1</i></u>	<u>666,000 <i>Note 1</i></u>	<u>774,000 <i>Note 1</i></u>
Total	2,521,400	2,880,000	3,330,000	3,870,000
10% buffer		<u>320,000</u>	<u>370,000</u>	<u>430,000</u>
Proposed Sale Caps		<u><u>3,200,000</u></u>	<u><u>3,700,000</u></u>	<u><u>4,300,000</u></u>

Note:

- For the new products lines, the estimated transaction amount is based on the expected amount of purchase orders to be placed by the Hon Hai Group to the Group due to the Hon Hai Group continue to reduce the number of its suppliers for better logistics and supply chain control as well as the introduction of new product lines by the Group. Furthermore, the Group mainly considered (i) the annual growth in the number of our suppliers which are the new suppliers of the Group under new products lines, and (ii) the forecast of sales transaction amounts upon the new business with the Hon Hai Group is obtained. Under this factor (ii), the Group forecasts the sales transaction amounts under the new products lines of existing suppliers of the Group for the years ending 31 December 2022 to 31 December 2024. For further information of the new products lines, please refer to the section headed “Sales and Purchases Caps – Sales Caps”.

The transactions between the Group and the Hon Hai Group are on project basis. The increase/ (decrease) in the annual caps for existing business of approximately (8.62%), 15.63% and 16.22% for the financial years ending 31 December 2022, 2023 and 2024 respectively is due to the different stages of the project life cycle phases. In particular, a project with the Hon Hai Group in FY2021 has ended and it is expected that another project with the Hon Hai Group will start in FY2023.

LETTER FROM THE BOARD

Due to the low utilisation rate of the relevant cap for the prior financial years, and the reasonable growth prediction for the financial year ending 31 December 2022, 2023 and 2024, the estimation on sale cap is based on the projection of actual transaction amount up to the end of October 2021 on pro rata basis, the sales turnover with the Hon Hai Group of the Group in the first ten months of 2021 and the economic condition as at the end of 2021 and the estimation amount for the financial year ending 2022, 2023 and 2024. The Directors consider the Sales Caps set out above are a realistic reflection of the decreasing demand and use of smartphones, tablets, PCs and other electronic products which in turn decreases the demand for Hon Hai to place orders with the Group, given that the Group has been supplying parts and components used for the manufacturing of the smartphones, tablets, PCs and other electronic products.

The increment of the existing business segment in the Sales Caps for the year 2022, 2023 and 2024 is mainly attributable to the expected growth of sales in memory chips and passive components while the growth of sales in a new product lines are mainly contributed by the launch of new product lines of the Group in the next three years. For further information on the basis for determining the cap, please refer to the section headed “Basis of the Caps – Sales Caps”.

Our new product lines include NOR Flash, NAND Flash, NFC sensors, optical networking devices and trans-impedance amplifiers which potentially have a wide range of applications in various electronic devices including smartphones, tablets, PCs, networking devices such as routers and switches as well as telephone, transmitting stations and satellite operators.

In relation to the estimation of the sales transaction amounts under the new product lines for the year ending 31 December 2022 to 31 December 2024, the Group mainly considered (i) the annual growth in the number of our suppliers, and (ii) the forecast of sales transaction amounts upon the new business with the Hon Hai Group is obtained, and (iii) the information provided by the sale executives of the Group. For (i) the annual growth in the number of our suppliers, there has been an annual growth in the number of our suppliers since year 2015, i.e. the Group has recorded an increase of 197, 192, 154, 656, 526 and 593 suppliers in year 2016, 2017, 2018, 2019, 2020 and 2021 respectively. The growth in the number of our suppliers represents that more types of product can be sold to the Hon Hai Group. The Group, acting as a trader between the Hon Hai Group and other suppliers, expects a year-on-year increase on the purchase orders to be placed by Hon Hai Group under their supply chain control policy. In this connection, under this factor (i), the Group forecasts the sales transaction amounts under new products lines of new suppliers of the Group for the years ending 31 December 2022, 31 December 2023 and 31 December 2024 are around HK\$115,200,000, HK\$133,200,000 and HK\$154,800,000 respectively. For (ii) the forecast of sales transaction amounts upon the new business with the Hon Hai Group is obtained, the Group has suppliers which manufacture the electronic components that the Hon Hai Group is currently purchasing from its other suppliers. At this moment, the Group is pitching the Hon Hai Group to purchase the said electronic components from the Group instead of from its other suppliers. In this connection, under this factor (ii), the Group forecasts the sales transaction amounts under new products lines of existing suppliers of the Group for the years ending 31 December 2022, 31 December 2023 and 31 December 2024 are around HK\$460,800,000, HK\$532,800,000 and HK\$619,200,000 respectively. For (iii) the information provided by the sale executives of the Group, the sale executives of the Group will receive information and forecast regarding the demand on the new products by the Hon Hai Group in future from the representatives of the Hon Hai Group during the quarterly 3-party meetings.

LETTER FROM THE BOARD

Purchase Caps

A number of the members of Hon Hai Group are the approved vendors designated by certain end-customers of the Group. The Group is required by these customers to purchase materials and components from approved vendors. The aggregated amount of purchases of electronic components made by the Group from Hon Hai Group increased slightly from 2018 to 2019, and increased substantially from 2019 to 2020, the Board estimates that the Purchase Transactions will continue to grow in the next three financial years since the Group has expanded its customer base in 2021 which employ products supplied by the Hon Hai Group.

The following table and notes illustrate the estimated transaction amounts of the Purchase Transactions for the year ending 31 December 2021 as well as the calculations to arrive the proposed Purchase Caps of the Continuing Connected Transactions for each of the three financial years ending 31 December 2022, 2023 and 2024 of the Group respectively are set out below:

	For the financial year ended 31 December 2021 <i>HK\$'000</i> <i>(estimated)</i>	For the financial year ending 31 December 2022 <i>HK\$'000</i>	For the financial year ending 31 December 2023 <i>HK\$'000</i>	For the financial year ending 31 December 2024 <i>HK\$'000</i>
a. Products which the end-customers have designated the Hon Hai Group as the only vendor	1,050,000	1,021,000	1,173,000	1,366,000
b. Distribution of SHARP PRODUCTS	327,000	376,000	444,000	526,000
Total of existing business	1,377,000	1,397,000	1,617,000	1,892,000
New Products – earphone parts and modules and clips	963,000 <i>Note 1</i>	943,000 <i>Note 2</i>	1,083,000 <i>Note 2</i>	1,259,000 <i>Note 2</i>
Total	2,340,000	2,340,000	2,700,000	3,151,000
10% buffer		260,000	300,000	350,000
Proposed Purchase Caps		2,600,000	3,000,000	3,500,000

Notes

1. The estimation is based on the projection of actual transaction amount for ten months up to the end of October 2021 on pro rata basis.
2. New project started on June 2021 and the estimation is based on the actual transaction amount up to October 2021 on pro rata basis and 2022 sale forecast from several customers.

LETTER FROM THE BOARD

Since the relevant cap for the prior financial years would not be fully utilised, taking into account the reasonable growth prediction and the 10% buffer for the financial year ending 31 December 2022, 2023 and 2024, the estimation on the Purchase Cap is based on the purchase amount from the Hon Hai Group in the first ten months of 2021 and the economic condition as at the end of 2021 and the estimated amounts for the financial year ending 2022, 2023 and 2024.

The estimation of growth in the next three financial years is mainly attributable to the continuous growth of demand for consumer electronics, the expected introduction of new smartphones and earphones which employed Hon Hai connectors, modules and clips. In addition, due to the increasing expansion of product lines supplied by the Hon Hai Group in terms of variety, quantity and quality, it is expected that there will be new customers who will start to employ the components and parts supplied by Hon Hai Group. For the new products, mainly earphone parts and modules and clips, we started to purchase earphone parts and modules and clips and re-sell those parts to OEM factories. The Group expects the purchase of earphone parts and modules and clips will continue in the next three years.

FIT Hon Teng Limited (鴻騰六零八八精密科技股份有限公司) is a non-wholly owned subsidiary of Hon Hai and the Shares of which are listed on the Main Board of the Stock Exchange (stock code: 6088) (“**FIT Hon Teng**”). The Group purchases the connectors, earphone parts, modules and clips, and other electronic components from FIT Hon Teng and resells these products to the Group’s end-customers. According to the 2021 interim results of FIT Hon Teng dated 10 August 2021, it reveals that (i) FIT Hon Teng anticipate the mobile devices end market will continue to be their main revenue contributor, (ii) the demand for mobile devices continues to expand around the world, the arrival of the 5G generation will drive the replacement of mobile phones, and it is expected that the mobile phone industry will return to growth in the second half of 2021, which will also bring business opportunities for 5G-related components, and (iii) there was an increase in their CPU socket and network socket product business due to the work-from-home arrangement and home-based learning during the COVID-19 pandemic. As a result, revenue from the communications infrastructure end market increased by 7.4% for the six months ended 30 June 2021 compared to the same period in 2020.

Note: The above information is extracted from the website of FIT Hon Teng Limited at (<http://www.fit-foxconn.com>)

Further, there has been a continuous growth on the distribution sale volume of various products under the brand name of “SHARP” in the past two years, taking into account of SHARP’s leading position in electronic component to consumer electronic regimes, the Group expects a healthy and sustainable business growth on the distribution sales volume of various products under the brand name of “SHARP” in the next three financial years. The Directors consider the growth rates of the Purchase Caps set out above are a realistic estimation of the growth of purchase transactions between the Group and Hon Hai Group.

The increment of the existing business segment in the Purchases Caps is mainly accountable to the indications from our existing customers who reflected their intention to increase their demand for products supplied by the Hon Hai Group while the increases of purchases due to new product lines and new customers are estimated with reference to the purchase forecast. Weekly and monthly meetings are conducted by experienced sale teams in evaluating and estimating the demand for new product lines when preparing the purchase forecast. Factors such as the current market situation and customer demand will usually be considered. For further information on the basis for determining the cap, please refer to the section headed “Basis of the Caps – Purchase Caps”.

LETTER FROM THE BOARD

BASIS OF THE CAPS

Sale Caps

In determining the proposed Sales Caps of the Continuing Connected Transactions for each of the three financial years ending 31 December 2022, 2023 and 2024 of the Group, the Board has relied on the following major factors:

(a) *Turnover outlook of the Group*

Given the popularity of artificial intelligence (AI) – integrated TVs, household appliances and other smart devices such as cleaning robot and drone increased, riding on the Group’s proven all-round technical support of Internet of Things (IoT) and smart home connectivity solutions and the increasing demand and use of other electronic products and with the effect of shortening of technology life-cycle of consumer electronics which rapidly phases out the old products, the Directors expect that market growth rate of the sales and purchases to and from Hon Hai will have an incremental increase in the following 3 years.

In particular, having considered the AI development in many countries, such as the US, China, Japan and Europe, the Directors expect that the sales of memorial ICs (e.g. dynamic random access memory chips and flash memory chips), radio frequency modules, larger storage memory chips, distance measurement and dust sensors and optical Couplers to be sold to the Hon Hai Group will increase drastically comparing the sales in 2020 than the expected sales in 2024.

Our largest customer is one of the 1st tier PRC brand mobile phone companies, which is a listed company on the Main Board of the Stock Exchange, as disclosed in the announcement for 3rd quarter result for 2021, their revenue increased by 38.4% and we expect it will have more demands of our products than the Hon Hai Group.

Further, as disclosed in the 3rd quarter report of 2021 published by Foxconn Industrial Internet Company Limited (“FII”) which is a connected party of Hon Hai Group and the shares of which are listed on the Shanghai of the Stock Exchange (stock code: 601138), the continuous improvement of 5G and smart home business has contributed to overall gross profit margin due to the increase in cash received from the sale of products.

Note: The above information is extracted from 3rd quarter report of 2021 published by Foxconn Industrial Internet Company Limited at (<http://english.sse.com.cn/markets/equities/announcements/>)

(b) *New product lines of the Group sales to the Hon Hai Group*

The Group is negotiating with new major suppliers so that the products can be distributed by the Group to Hon Hai. Those new product lines include NOR Flash, NAND Flash, NFC sensors, optical networking devices and trans-impedance amplifiers which can have wide-variety applications in various electronic devices including smartphones, tablets, PCs, networking devices such as routers and switches as well as telephone, transmitting stations and satellite operators.

LETTER FROM THE BOARD

There has been an annual growth in the number of our suppliers since year 2018. The growth in the number of our suppliers represents that more types of product can be sold to the Hon Hai Group. Our Group, being the intermediate trader between the Hon Hai Group and our suppliers, can take advantage of the Hon Hai Group's "Integrated Supplier Approach", therefore, the Group expects a year-on-year increase on the purchase orders to be placed by Hon Hai Group.

The Group has business cooperation with the Hon Hai Group since 1999. The business relationship between the Group and the Hon Hai Group is stable and solid. The Company considers that there is only a remote risk that the Hon Hai Group may consider sourcing from other suppliers under the "Integrated Supplier Approach" and that the Group may not benefit from it.

(c) *A buffer of 10% on the estimate of factors (a) to (b) above*

The buffer of 10% for the financial year ending 31 December 2022, 2023 and 2024 respectively is to cater for the potential effect of, among other things, the unexpected increase in sale of electronic or other products, potential inflation for the next 3 years, the change in exchange rate of Hong Kong Dollars against other currencies as well as other factors which may lead to fluctuations in the estimate of factors set out above.

Purchase Caps

In determining the proposed Purchase Caps of the Continuing Connected Transactions for each of the three financial years ending 31 December 2022, 2023 and 2024 of the Group, the Board based on the following major factors:

(a) *Expanded customer base of the Group in 2021 which employed products supplied by the Hon Hai Group and Increasing demand for Hon Hai connectors, modules and clips*

The Group has been opening up new product lines which employed products supplied by the Hon Hai Group. For example, the Group started to purchase earphone parts and modules and clips to be assembled in notebook computers from Hon Hai to our end customers which are certain OEM factories in 2021 and the Group expects to receive more orders from our end-customers in the next 3 years.

As stated earlier in the circular, FIT Hon Teng Limited has disclosed in their 2021 interim report that they not only witnessed an increasing sales of interconnect solutions utilized in both the new smartphone products released by a brand company customer and in the earphones associated with smartphone products, they also saw demand for mobile and wireless devices continues to rise around the world. The proliferation of mobile phones, in particular smartphones, drives demand for various accessory products such as chargers, batteries, earphones, headsets and power banks.

(b) *the anticipated sales growth that will be achieved from SHARP PRODUCTS*

The Group distributes (i) EC PRODUCTS (ii) BES PRODUCTS, under the brand name of "SHARP" for more than five years.

LETTER FROM THE BOARD

Taking into account of SHARP's leading position in electronic component to consumer electronic regimes, the Group expects the increase in distribution volume of various products under the brand name of "SHARP" will remain solid in the next three financial years.

According to the forecast of financial results of SHARP for the fiscal year ending 31 March 2022, they expect an increment of 5.1% on their net sales against the previous year.

Note: The above information is extracted from the website of SHARP at http://global.sharp/corporate/ir/library/financial/pdf/2022/2/2203_2Q_Release.pdf

(c) *A buffer of 10% on the estimate of factors (a) to (b) above*

The buffer of 10% for the financial year ending 31 December 2022, 2023 and 2024 respectively is to cater for the possible effect of, among other things, the unexpected increase in purchases of electronic or other products, potential inflation for the next 3 years, the change in exchange rate of Hong Kong Dollars against other currencies as well as other factors which may lead to fluctuations in the estimate of factors set out above.

Despite the factors which may contribute to the growth in the Purchase Transactions during the three years ending 31 December 2024, certain end-customers will cease to demand certain purchase products from FY2022 as their production of new products (including earphone parts and modules and clips) may not require such purchase products. Accordingly, the possible growth in the Purchase Transactions in FY2022 may be partially off-set. The Directors consider that applying the buffer for determining the Purchase Cap for FY2022 is sufficient to cover possible growth (which may be partially off-set) in Purchase Transactions during FY2022.

Taking into account (i) the revenue of FIT Hon Teng Limited from the communication infrastructure end market has increased by 7.4% in the six months ended 30 June 2021 compared to that in the same period in 2020, and (ii) an increment of 5.1% expected by SHARP on their net sales against the previous year, the Group considers that the estimation of the proposed Purchase Caps of the Continuing Connected Transactions for each of the three financial years ending 31 December 2022, 2023 and 2024 of the Group are fair and reasonable.

If the amounts of the Continuing Connected Transactions shall exceed the respective Caps or upon the expiry of the Caps or where there is a material change to the terms of the Continuing Connected Transactions, the Company will re-comply with all applicable requirements under the Listing Rules, including (where required) making necessary announcement(s) and obtaining of approval of the Independent Shareholders. The Company will also comply with the annual review and reporting requirements under Rule 14A.55 to Rule 14A.59 and Rule 14A.71 in relation to the Continuing Connected Transactions.




LETTER FROM THE BOARD

RELATIONSHIP BETWEEN THE COMPANY AND THE CONNECTED PERSONS

Foxconn, being a wholly owned subsidiary of Hon Hai, is interested in 19.81% of the issued share capital of the Company and a substantial shareholder of the Company. FIT Taiwan, Huai An Fulitong Trading and SHARP are non-wholly owned subsidiaries or associates of Hon Hai. Therefore, Hon Hai, Foxconn, FIT Taiwan, Huai An Fulitong Trading, SHARP and their respective associates are connected persons of the Company and the Continuing Connected Transactions constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

INFORMATION ABOUT THE GROUP AND HON HAI GROUP

The Group specialises in design, development, sourcing, quality assurance and logistics management of global proprietary electronic components and semiconductor products including chipset solutions, display panels, memory chips, power supply system solutions, multimedia system solutions, PEMCO, IoT home automation solutions, light-emitting diode (“LED”) lighting solutions and other premier solutions for a wide range of applications for mobile, consumer electronic, computer and networking, telecommunication and LED lighting and display products.

The Group also distributes innovative environmental-friendly lifestyle enhancement finished SHARP'S BES PRODUCTS and our owned brands of Light in Motion , LIM InfraSystems  and Square  in the Asia Pacific region.

Hon Hai is a company listed in Taiwan Stock Exchange (Stock Code: 2317) and the Hon Hai Group is the world's leading computer, communication, consumer electronics manufacturing services provider.

REASONS AND BENEFITS FOR THE CONTINUING CONNECTED TRANSACTIONS

The Previous Master Agreement dated 28 December 2021 between the Company and Hon Hai will expire on 31 December 2021. As a result, the Company entered into the Conditional Master Agreement which governs the Continuing Connected Transactions of sales and purchase of electronic components and distribution of SHARP PRODUCTS and other brand products under the Hon Hai Group between the Group and the Hon Hai Group to be made during the period between 1 January 2022 and 31 December 2024 (both dates inclusive).

The Directors (excluding the independent non-executive Directors whose views will be given after taking into account the advice from Gram Capital) consider that the Hon Hai Group is a reliable source of business for the Group and it is in its best interests to generate incremental income by carrying out Sales Transactions and Purchase Transactions as long as the Sales Transactions and Purchase Transactions are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

The Directors (including the independent non-executive Directors) confirm that the Continuing Connected Transactions will be conducted in the usual and ordinary course of business of the Group, and based on normal commercial terms and on terms no less favourable to the Group than terms available to or from (as appropriate) other independent third parties. The Directors (excluding the independent non-executive Directors whose views will be given after taking into account the advice from Gram Capital) are of the view that the Conditional Master Agreement, the Caps and the Continuing Connected Transactions contemplated thereunder are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

IMPLICATIONS OF THE LISTING RULES

As the Continuing Connected Transactions constitute continuing connected transactions and the applicable percentage ratios for the Purchase Caps and the Sales Caps are expected to exceed 5% on an annual basis, the Continuing Connected Transactions constitute non-exempt continuing connected transactions of the Company and the Conditional Master Agreement and the Caps are subject to the Announcement requirements and the reporting and independent shareholders' approval requirements under Rule 14A.36 of the Listing Rules. The SGM will be convened for the Independent Shareholders to approve the Conditional Master Agreement, the Caps and the Continuing Connected Transactions contemplated thereunder by poll.

As at the Latest Practicable Date, so far as was known to any director or chief executive of the Company, the following persons (other than a director or the chief executive of the Company) had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Long positions in shares of the Company

Name	Capacity	Number of Shares held as at the Latest Practicable Date	Percentage of issued share capital of the Company as at the Latest Practicable Date
Hon Hai	Held by controlled corporation ^(Note)	124,000,000	19.81%
Foxconn	Beneficial owner	124,000,000	19.81%

Note: Foxconn, a company incorporated in the British Virgin Islands, is wholly-owned by Hon Hai and therefore Hon Hai is deemed to be interested in the shares owned by Foxconn under the SFO.

In view of the interests of Hon Hai and Foxconn in the Company, Hon Hai and Foxconn and their respective associates shall abstain from voting in relation to the resolutions to approve the Conditional Master Agreement, the Caps, and the Continuing Connected Transactions contemplated thereunder. None of the Directors of the Company has any material interest in the Continuing Connected Transactions. Therefore, none of them is required to abstain from voting on the board resolution for approving the Conditional Master Agreement, the Caps and the Continuing Connected Transactions.

LETTER FROM THE BOARD

None of the Directors of the Company has any material interest in the Continuing Connected Transactions. None of the Directors had a service contract or a proposed service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation. None of the Directors nor any proposed director nor their respective associates had any interests in a business which competes or may compete, either directly or indirectly, with the business of the Group or any other conflicts of interests with the Group; and none of the Directors nor any proposed director nor their respective associates has any direct or indirect interest in any assets which have been, since 31 December 2020, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

No transaction, arrangement and contract of significance to which the Company, its holding companies, fellow subsidiaries or subsidiaries was a party and in which a director or a connected entity of a director of the Company had a material interest and which is significant in relation to the business of the Group, whether directly or indirectly, subsisted at the date of the Circular.

Gram Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee of the Company and the Independent Shareholders regarding the Conditional Master Agreement, the Caps, and the Continuing Connected Transactions contemplated thereunder. An Independent Board Committee of the Company will also be appointed to advise the Independent Shareholders on whether or not the Conditional Master Agreement, the Caps, and the Continuing Connected Transactions contemplated thereunder are in the interest of the Company and are fair and reasonable so far as the Independent Shareholders are concerned.

As the SGM will be convened after 1 January 2022, the Company will comply with the requirement under Rule 14A.34 of the Listing Rules and enter into written agreements for all connected transactions carried out during the period between 1 January 2022 and the date of SGM. The Company will closely monitor the aggregate amount of the transactions, limit the transactions carried out during the period between 1 January 2022 and the date of SGM and use its best endeavour to ensure that the aggregate amount of the transactions in the said period would fall within the De Minimis transactions as defined under Rule 14A.76(2) of the Listing Rule.

SPECIAL GENERAL MEETING

There is set out on pages 57 to 58 of this circular a notice convening the SGM to be held at 20/F., S.A.S. Tower, 55 Lei Muk Road, Kwai Chung, New Territories, Hong Kong at on 1 March 2022 at 11:00 a.m. at which ordinary resolutions will be proposed for the approval by the Independent Shareholders by poll the Conditional Master Agreement, the Caps, and the Continuing Connected Transactions contemplated thereunder.

Whether or not you are able to attend the SGM in person, you are requested to complete and return the enclosed proxy form in accordance with the instructions printed thereon to the Company's branch share registrar in Hong Kong, Tricor Secretaries Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong but in any event not later than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof. The completion of the enclosed proxy form will not preclude you from attending and voting at the SGM or any adjournment thereof should you so wish.

LETTER FROM THE BOARD

In compliance with the Listing Rules, the votes to be taken at the SGM in respect of the Conditional Master Agreement, the Caps and the Continuing Connected Transactions contemplated thereunder will be taken by poll, the results of which will be announced after the SGM.

RECOMMENDATION

The Independent Board Committee, having taken into account the advice of Gram Capital, considers that the Conditional Master Agreement, the Caps, and the Continuing Connected Transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole and are fair and reasonable so far as the Independent Shareholders are concerned. The Independent Board Committee therefore recommends the Independent Shareholders to vote in favour of the resolutions to be proposed in the SGM to approve the Conditional Master Agreement, the Caps, and the Continuing Connected Transactions contemplated thereunder.

ADDITIONAL INFORMATION

Your attention is drawn to the letters from the Independent Board Committee and from Gram Capital which are respectively set out on pages 34 and 35 to 51 of this circular. Additional information is also set out in the Appendix of this circular for your information.

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

* *the exchange rate illustrated in this circular is for reference only.*

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



S.A.S. Dragon Holdings Limited

(incorporated in Bermuda with limited liability)

(Stock Code: 1184)

14 February 2021

To the Independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

We refer to the circular dated 14 February 2022 issued by the Company (the “**Circular**”) of which this letter forms part. Terms defined in the Circular bear the same meanings herein unless the context otherwise requires.

We have been appointed as the members of the Independent Board Committee to consider the Conditional Master Agreement, the Caps, and the Continuing Connected Transactions contemplated thereunder and to advise the Independent Shareholders as to the fairness and reasonableness of the same. Gram Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

RECOMMENDATION

We wish to draw your attention to the letter from the Board, as set out on pages 6 to 33 of the Circular, and the letter from Gram Capital which contains its advice to the Independent Board Committee and the Independent Shareholders in respect of the Conditional Master Agreement, the Caps, and the Continuing Connected Transactions contemplated thereunder as set out on pages 35 to 51 of the Circular.

After taking into consideration the advice from Gram Capital, we concur with the views of Gram Capital and consider that the Conditional Master Agreement, the Caps, and the Continuing Connected Transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole and are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolutions to be proposed in the SGM to approve the Conditional Master Agreement, the Caps, and the Continuing Connected Transactions contemplated thereunder.

Yours faithfully
Wong Tak Yuen, Adrian
Liu Chun Ning, Wilfred
Cheung Chi Kwan
Wong Wai Kin
Independent Board Committee

LETTER FROM GRAM CAPITAL

Set out below is the text of a letter received from Gram Capital, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Continuing Connected Transactions for the purpose of inclusion in this circular.



Room 1209, 12/F.
Nan Fung Tower
88 Connaught Road Central/
173 Des Voeux Road Central
Hong Kong

14 February 2022

*To: The independent board committee and the independent shareholders
of S.A.S. Dragon Holdings Limited*

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Conditional Master Agreement and the transactions contemplated thereunder, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 14 February 2022 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

With reference to the Board Letter, the Previous Master Agreement dated 28 December 2018 for the sales and purchases of electronic components and other products between the Group and Hon Hai Group expired on 31 December 2021. In anticipation of such continuing sales and purchases of electronic components and distribution of SHARP PRODUCTS and other brand products under the Hon Hai Group between the Group and the Hon Hai Group in future, on 2 December 2021, the Company entered into the Conditional Master Agreement with Hon Hai which governs the sales and purchases of electronic components and distribution of SHARP PRODUCTS and other brand products under the Hon Hai Group to be made for the next 3 financial years during the period between 1 January 2022 and 31 December 2024 (both dates inclusive).

With reference to the Board Letter, the Continuing Connected Transactions constitute non-exempt continuing connected transactions of the Company and the Conditional Master Agreement and the Caps are subject to the announcement requirements and the reporting and independent shareholders’ approval requirements under the Listing Rules.

LETTER FROM GRAM CAPITAL

The Independent Board Committee comprising Mr. Wong Tak Yuen, Adrian, Mr. Liu Chun Ning, Wilfred, Mr. Cheung Chi Kwan and Mr. Wong Wai Kin (all being independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of the Continuing Connected Transactions are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the Continuing Connected Transactions are in the interests of the Company and the Shareholders as a whole and are conducted in the ordinary and usual course of business of the Group; and (iii) how the Independent Shareholders should vote in respect of the resolution to approve the Conditional Master Agreement and the transactions contemplated thereunder at the SGM. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

INDEPENDENCE

We were not aware of any relationships or interests between Gram Capital and the Company during the past two years immediately preceding the Latest Practicable Date, or any other parties that could be reasonably regarded as hindrance to Gram Capital's independence to act as the Independent Financial Adviser.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. Our opinion is based on the Directors' representation and confirmation that there is no undisclosed private agreement/arrangement or implied understanding with anyone concerning the Continuing Connected Transactions. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

The Circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or the Circular misleading.

LETTER FROM GRAM CAPITAL

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, Hon Hai Group or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of conducting the Continuing Connected Transactions. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is the responsibility of Gram Capital to ensure that such information has been correctly extracted from the relevant sources while we are not obligated to conduct any independent in-depth investigation into the accuracy and completeness of those information.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Continuing Connected Transactions, we have taken into consideration the following principal factors and reasons:

1. Background of and reasons for the Continuing Connected Transactions

Information on the Group

With reference to the Board Letter, the Group specializes in design, development, sourcing, quality assurance and logistics management of global proprietary components and semiconductor products including chipset solutions, display panel, memory chips, power supply system solutions, multimedia system solutions, PEMCO, IoT home automation solutions, LED lighting solutions and other premier solutions for a wide range of applications for mobile, consumer electronics, computer and networking, telecommunication and LED lighting and display products. The Group also distributes innovative environmental-friendly lifestyle enhancement finished SHARP'S BES PRODUCTS and its owned brands of Light in Motion, LIM InfraSystems and Square in the Asia Pacific region.

LETTER FROM GRAM CAPITAL

Set out below is the financial information of the Group for the two years ended 31 December 2020 and the six months ended 30 June 2021 as extracted from the Company's annual report for the year ended 31 December 2020 (the “**2020 Annual Report**”) and interim report for the six months ended 30 June 2021 (the “**2021 Interim Report**”):

	For the six months ended 30 June 2021 (unaudited) HK\$'000	For the year ended 31 December 2020 (audited) HK\$'000	For the year ended 31 December 2019 (audited) HK\$'000	Change from 2019 to 2020 %
Revenue	17,180,654	20,164,341	18,402,901	9.57
– Sales of electronic components and semiconductors	17,111,032	19,953,290	18,020,910	10.72
– Sales of home appliances and business equipment and provision of related ancillary services	36,812	94,079	193,742	(51.44)
– Sales and contract works of LED lighting and display products	20,053	98,720	165,698	(40.42)
– Income from leasing activities	12,757	18,252	22,551	(19.06)
Gross profit	847,486	871,864	897,972	(2.91)
Profit for the period/year attributable to owners of the Company	426,571	261,897	236,435	10.77

As illustrated in the above table, the revenue of the Group amounted to approximately HK\$20,164 million for the year ended 31 December 2020 (“**FY2020**”), representing an increase of approximately 9.57% as compared to that for the year ended 31 December 2019 (“**FY2019**”). The largest revenue contributor of the Group was sales of electronic components and semiconductors for the two years ended 31 December 2020 and the six months ended 30 June 2021 (“**1H2021**”). With reference to the 2020 Annual Report, the aforesaid revenue increase was mainly due to the Group's good reputation and proven track record in the electronic supply chain services provider business. The profit attributable to owners of the Company for FY2020 also increased by approximately 10.77% as compared to that for FY2019. We noted from the 2020 Annual Report that such increase in profit attributable to owners of the Company was mainly due to reduction in distribution and selling expenses, administrative expenses, finance costs and loss from derecognition of trade receivables at fair value through other comprehensive income which were partially off-set by decrease in gross profit and negative change in fair value of investment properties.

We noted from the 2021 Interim Report that the Group's revenue, gross profit and profit attributable to owners of the Company for 1H2021 increased substantially by approximately 106%, 112% and 227% respectively as compared with those for the six months ended 30 June 2020 (“**1H2020**”).

LETTER FROM GRAM CAPITAL

With reference to the 2021 Interim Report, during 1H2021, the COVID-19 pandemic continues to create significant macroeconomic uncertainty, volatility and disruption, including supply chain constraints and extended lockdown across many countries. However, the increase of COVID-19 vaccination rate led to recovery in business and economic activities, especially in the PRC, where normalization has progressed quickly and market conditions are rapidly recovering. Global demand for 5G, AI, electric vehicles, cloud-related communication and data centers have become new business opportunities. Also, the Group's long-term relationships with key suppliers have enabled it to navigate through global supply challenges.

Information on Hon Hai Group

With reference to the Board Letter, Hon Hai is a company listed in Taiwan Stock Exchange (stock code: TW2317) and the Hon Hai Group is the world's leading computer, communication, consumer electronics manufacturing services provider.

As advised by the Directors, the sales and purchases of electronic components between the Group and Hon Hai Group commenced since 1999, at such time Hon Hai was not a connected person of the Company. In 2000, Foxconn (a wholly-owned subsidiary of Hon Hai) became a substantial Shareholder. As further confirmed by the Directors, since the commencement of business between the Group and Hon Hai Group, the Group has maintained good business relationship with Hon Hai Group and the Group has neither received any material complaint from Hon Hai Group in respect of the electronic components sold to Hon Hai Group nor from the end-customers of the Group in respect of the electronic components purchased from Hon Hai Group and resold to the end-customers. Moreover, the Group has not suffered from any bad debt due to its sales of the electronic components to Hon Hai Group.

Reasons for and benefits for the Continuing Connected Transactions

With reference to the Board Letter, the Previous Master Agreement dated 28 December 2018 between the Company and Hon Hai expired on 31 December 2021. As a result, the Company entered into the Conditional Master Agreement which governs the Continuing Connected Transactions of sales and purchase of electronic components and distribution of SHARP PRODUCTS and other brand products under the Hon Hai Group between the Group and the Hon Hai Group to be made during the period between 1 January 2022 and 31 December 2024 (both dates inclusive).

With reference to the Board Letter, a number of the members of Hon Hai Group are the approved vendors designated by certain end-customers of the Group (the "**End-Customers**"). The Group is required by the End-Customers to purchase materials and components from approved vendors. The Group acts as a distributor of the Hon Hai Group to purchase electronic components from the Hon Hai Group and sell the same to the End-Customers of the Group. The Group is also distributor of the SHARP PRODUCTS and other brand products under the Hon Hai Group. The products purchased by the Group under the Purchase Transactions were re-sold to the Group's customers.

LETTER FROM GRAM CAPITAL

With reference to the Board Letter, the Group is one of the suppliers of the Hon Hai Group. The Group acts as an agent between the Hon Hai Group and other suppliers to sell electronic components to the Hon Hai Group. For sales of electronic components by the Group to the Hon Hai Group, the Hon Hai Group would conduct sourcing in advance and instruct the Group to purchase the electronic components from the designated supplier and resell the same to the Hon Hai Group.

As confirmed by the Directors, the sales to the Group's customers and the Hon Hai Group have been recognized as the Group's revenue.

In view of the above, we concur with the Directors that the Continuing Connected Transactions are conducted under the ordinary and usual course of business of the Company and are in the interests of the Company and the Shareholders as a whole.

2. Principal terms of the Conditional Master Agreement

The tables below summarise the major terms of each of the Conditional Master Agreement:

Date:	2 December 2021
Parties:	(i) The Company (ii) Hon Hai
Subject matter:	Sales and purchases of electronic components and distribution of SHARP PRODUCTS and other brand products under the Hon Hai Group between the Group and the Hon Hai Group
Term:	From 1 January 2022 to 31 December 2024

The Conditional Master Agreement is conditional upon the approval of the Conditional Master Agreement and the Caps by the Independent Shareholders at the SGM.

Under the Conditional Master Agreement, the parties agree that the Continuing Connected Transactions shall be on normal commercial terms and, in particular: (i) the members of the Group who are parties to the Continuing Connected Transactions shall receive or pay such consideration for the transactions with members of the Hon Hai Group based on market rates or rates which are no less favourable than those available from or to (as appropriate) independent third parties; (ii) the terms of the Continuing Connected Transactions shall be fair and reasonable and negotiated on arm's length basis; (iii) for purchases made by the Group from the Hon Hai Group, as the members of the Hon Hai Group are the approved vendors designated by the End-Customers, the Group will review and ensure prices for products to be purchased are charged on a cost-plus basis with reasonable profit margin; (iv) for sales made by the Group to the Hon Hai Group, for the purpose of ensuring the terms of sales being fair and reasonable, the Group will review its pricing policy based on the following factors: (a) the historical selling price of similar products; (b) the market information obtained from current customers or other vendors; (c) quotations from independent third party(ies); or (d) continuing to expand the Company's customer base and obtaining market

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information from those customers; and (v) the total amount of the Continuing Connected Transactions shall not exceed the applicable caps or such other caps as approved by the Independent Shareholders from time to time.

With reference to the Board Letter, the members of the Group will follow the internal policy and procedures as set out under the section headed “INTERNAL POLICIES AND PROCEDURES” of the Board Letter (the “**Internal Control Policies**”) when entering into, or deciding whether to enter into any sale or purchase transactions, with members of the Hon Hai Group.

The Directors are of the view that the above Internal Control Policies can ensure that the Continuing Connected Transactions will be conducted on normal commercial terms and will not be prejudicial to the interests of the Company and the Shareholders. For our due diligence purpose, we obtained the copy of the Internal Control Policies, a set of internal control documents (including product database update, correspondences among sale executives of the Group, the Group’s main suppliers and representatives from the Hon Hai Group discussing overall prices and quantities for different product categories and internal pricing approval records) in respect of the Sale Transactions and a set of transaction documents (including correspondences between the Group and Hon Hai Group in relation to product quotation, internal pricing approval records and internal meeting reports) in respect of the Purchase Transactions. From the aforesaid documents, nothing has come to our attention that causes us to believe that the Internal Control Policies were not complied with.

Price policy for sales

With reference to the Board Letter, for sales to be transacted with the Hon Hai Group, the sale executives of the Group will have 3-party meetings with each of our main suppliers and representatives from the Hon Hai Group on a quarterly basis to discuss the overall prices and quantities for each product categories. The suppliers and representatives from the Hon Hai Group will agree upon the prices and quantities of various products to be traded. Determination of the prices for sales with Hon Hai is generally with reference to the standard price range, prevailing market prices of those or similar products, or the gross profit mark-up rate not below 1.5%.

With reference to the Board Letter, list of standard price range of all products based on current and historical selling price range of the product or similar products in different quantities (including both sales to independent third parties and the Hon Hai Group) is maintained by the Group in its central database. The standard price list is applicable to all parties including independent third parties and the Hon Hai Group. Besides the standard price list, the Company would also generate a separate price list only based on sales to independent third parties and make comparison with the proposed sale to Hon Hai Group to make sure the transaction is fair and reasonable. It is fair and reasonable to adopt the standard price range for each of the product in determination of the sales price to Hon Hai when the standard price list based on transactions with independent third parties will be referred and the current and historical selling price range of the product or similar products in different quantities maintained by the Group will be considered.

Detailed pricing policy for the Sale Transactions is set out under the sub-section headed “Price Policy for Sales” of the Board Letter.

LETTER FROM GRAM CAPITAL

For our due diligence purpose, the Company provided us a list of Sale Transactions by product brand for each of FY2019, FY2020 and the ten months ended 31 October 2021. We randomly selected from the aforesaid list and the Company provided us a set of invoices (comprising one invoice to Hon Hai Group and one invoice to independent third party) for each of FY2019, FY2020 and the ten months ended 31 October 2021 between (i) the Group and Hon Hai Group; and (ii) the Group and independent third parties, and we noted that the selling prices offered by the Group to Hon Hai Group were not less than the selling prices offered by the Group to independent third parties for the same products. We consider the reviewed invoices to be sufficient from the Independent Financial Adviser's perspective as (i) they were selected on a random basis (random selection basis can ensure that the samples were provided on a fair basis without bias and avoid manipulation of the sampling results) and covered the historical transaction period (up to the latest available month) under the Previous Master Agreement; and (ii) as mentioned above, nothing has come to our attention that causes us to believe that the Internal Control Policies were not complied with. In addition, based on the record provided by the Company, the overall gross profit mark-up rates of the Sale Transactions for the two years ended 31 December 2020 and the 10 months ended 31 October 2021 ranged from approximately 3.60% to 3.76% (the "**Historical Sale Transactions GP Mark-up Rates**").

With reference to the Board Letter, for determining the overall mark-up rate, the Group would take reference to the gross profit ratios of other competitors which (i) are also mainly doing business of purchasing and selling electronic components, such as connectors and integrated circuits, (ii) have similar size of turnover as the Group, and (iii) have no own factory to manufacture electronic components. We consider the aforesaid criteria to be reasonable as they reflect the Group's business operation. For example, the Group has taken reference to the gross profit ratios of the Supreme Electronics Company Limited which is a company listed on Taiwan Stock Exchange (stock code: TW8112) and Edom Technology Company Limited which is a company listed on Taiwan Stock Exchange (stock code: TW3048).

We researched for the gross profit ratios of the aforesaid two competitors identified by the Company (the "**Comparables**") for the three financial years ended 31 December 2020. We noted that the average gross profit margins of both of Supreme Electronics Company Limited and Edom Technology Company Limited were approximately 3% for the three financial years ended 31 December 2020. The Historical Sale Transactions GP Mark-up Rates are comparable to the average gross profit margins of the Comparables for the three financial years ended 31 December 2020.

With reference to the Board Letter and as confirmed by the Directors, the lower gross profit margins of the Sale Transactions as compared to the Group's overall gross profit margins (i.e. approximately 4.88% for FY2019 and approximately 4.32% for FY2020) are justifiable given that the total Sale Transactions with Hon Hai Group are often in large volume and quantity (i.e. Hon Hai Group is one of the Group's large customers), the logistics costs with the Hon Hai Group are relatively low, and the Hon Hai Group has a good credit thus avoid bad debt risk. In addition, the percentage of the maximum costs and resources saved such as finance costs, account receivable insurance, logistics charge, warehouse staff cost and warehouse depreciation in the Sale Transactions as compared to sales to other customers are between 0.45% to 1.04% of revenue for the three years ended 31 December 2020 and the six months ended 30 June 2021. For our due

LETTER FROM GRAM CAPITAL

diligence purpose, we discussed with the Company regarding the nature of and reasons for and obtained the calculation of the aforesaid costs saved. We have no doubt on the reasonableness of the aforesaid costs saved.

In addition, the Directors advised us that the Group may conduct sale transactions which generate low gross profit margin with large independent third party customers. Upon our request, the Company (i) identified five large independent third parties for each of FY2019, FY2020 and the 10 months ended 31 October 2021 (the Group's annual sales amount to each party was over US\$5 million for each of the aforesaid periods); and (ii) provided 3 transaction records with each of the aforesaid customers for each of FY2019, FY2020 and the 10 months ended 31 October 2021 (9 transaction records with each customer) which generated gross profit margin of below 1.5% (the "**Lower GP Margin of I3Ps**"). We consider that obtaining the aforesaid records from the Company without sampling is justifiable as the purpose of obtaining the aforesaid records is to "demonstrate that the Group may conduct sale transactions which generate low gross profit margins with large independent third party customers" instead of "checking whether the gross profit margins generated from sale transactions conducted by the Group with large independent third party customers are low".

Accordingly, despite the lower gross profit margins of the Sale Transactions as compared to the Group's overall gross profit margins, it makes economic sense to conduct the Sale Transactions provided that the Group has sufficient capacity and reasonable gross profit margins can be generated therefrom.

Price policy for purchases

With reference to the Board Letter, for purchases of products not related to SHARP PRODUCTS, the Group will determine the prices for purchases of such products with Hon Hai with reference to the cost-plus basis with an overall markup rate not below 3%. For purchases of SHARP PRODUCTS, the Group will determine the prices for purchases of SHARP PRODUCTS with Hon Hai with reference to the cost-plus basis with an overall mark-up rate not below 4%. Detailed pricing policy for the Purchase Transactions is set out under the section headed "Price Policy for Purchases" of the Board Letter.

For our due diligence purpose, we requested the Company to provide us with certain historical purchases between (i) the Group and Hon Hai Group; and (ii) the Group and other independent third parties. As represented by the Company, (i) a number of the members of Hon Hai Group are the only vendors approved by the End-Customers; and (ii) the Group is engaged in the distribution of SHARP PRODUCTS and other brand products under the Hon Hai Group, the Group is thus required to purchase the products under the Purchase Transactions (the "**Purchase Products**") from Hon Hoi Group only. As such, there has been no purchases record between the Company and other independent third parties for the Purchase Products. In addition, since the market rates of products similar to the Purchase Products supplied by other suppliers to other purchasers are not publicly available, we are unable to get access to such information. It is also impractical to obtain quotation from other suppliers for comparison. In this respect, the Company provided us a list of Purchase Transactions by categories for each of FY2019, FY2020 and the ten months ended 31 October 2021. We randomly selected from the aforesaid list and the Company provided us with a set of historical purchases invoices between the Group and Hon Hai Group and sales invoices between the Group

LETTER FROM GRAM CAPITAL

and the End-Customers (comprising one invoice from each side) for each of FY2019, FY2020 and the ten months ended 31 October 2021 (we consider the reviewed invoices to be sufficient from the Independent Financial Adviser's perspective as (i) they were selected on a random basis (random selection basis can ensure that the samples were provided on a fair basis without bias and avoid manipulation of the sampling results) and covered the historical transaction period (up to the latest available month) under the Previous Master Agreement; and (ii) as mentioned above, nothing has come to our attention that causes us to believe that the Internal Control Policies were not complied with) and confirmed that the Group has been able to generate reasonable profits from the sales to the End-Customers subsequent to the purchases of the Purchase Products from Hon Hai Group (we also noted from the aforesaid invoice that the gross profit margins were not below 3%). We consider that such arrangement follows the normal commercial terms.

Based on the record provided by the Company, the overall gross profit mark-up rates of (i) reselling the Purchase Products (excluding SHARP PRODUCTS) to the End-Customers for the two years ended 31 December 2020 and the 10 months ended 31 October 2021 ranged from approximately 3.30% to 3.68%; and (ii) distribution of EC PRODUCTS for the two years ended 31 December 2020 and the 10 months ended 31 October 2021 ranged from approximately 8.4% to 8.6% (the "**Historical Reselling & Distribution GP Mark-up Rates (excluding BES PRODUCTS)**").

As aforementioned, we noted that the average gross profit margins of the Comparables were approximately 3% for the three financial years ended 31 December 2020. The Historical Reselling & Distribution GP Mark-up Rates (excluding BES PRODUCTS) are comparable to the average gross profit margins of the Comparables for the three financial years ended 31 December 2020.

We also noted that the Company also compared the gross profit ratios of Ricoh Company, Ltd. (listed on Tokyo Stock Exchange, stock code: JP7752) and KYOCERA CORPORATION (listed on Tokyo Stock Exchange, stock code: JP6971) with the actual gross profit margin rates of the Group for distributing BES PRODUCTS (i.e. ranged from approximately 32% to 37% for the two years ended 31 December 2020 and the 10 months ended 31 October 2021) (the "**Historical BES PRODUCTS Distribution GP Mark-up Rates**"). We consider such comparison to be reasonable as the aforesaid companies are engaged in provision of business equipment and solutions products. We also noted that the aforesaid Historical BES PRODUCTS Distribution GP Mark-up Rates are comparable to the average gross profit margins of Ricoh Company, Ltd. and KYOCERA CORPORATION of approximately 36% and 28% respectively for the three financial years ended 31 March 2021.

As confirmed by the Directors, the lower gross profit margins of the Purchase Transactions (excluding SHARP PRODUCTS) as compared to the Group's overall gross profit margins (i.e. approximately 4.88% for FY2019 and approximately 4.32% for FY2020) are justifiable given that the Purchase Transactions (excluding SHARP PRODUCTS) are often in large volume and quantity, the logistics costs with the End-Customers are relatively low (For our due diligence purpose, we discussed with the Company regarding the reason for and obtained the calculation of the aforesaid cost saved. We have no doubt on the reasonableness of the aforesaid cost saved.) and the price negotiation mechanism involves the End-Customers and the Hon Hai Group first agreeing the price (i.e., the Group's selling price to the End-Customers), which is then followed by the Group negotiating with the Hon Hai Group on its purchase price from the Hon Hai Group. Having

LETTER FROM GRAM CAPITAL

considered the above and the Lower GP Margin of I3Ps as aforementioned, despite the lower gross profit margins of the Purchase Transactions (excluding SHARP PRODUCTS) as compared to the Group's overall gross profit margins, it makes economic sense to conduct the Purchase Transactions (excluding SHARP PRODUCTS) provided that the Group has sufficient capacity and reasonable gross profit margins can be generated therefrom.

In addition, although the overall gross profit mark-up rates of distributing SHARP PRODUCTS (including EC PRODUCTS and BES PRODUCTS) were much higher than 4%, we noted from the Board Letter that there were a few transactions relating to EC PRODUCTS and BES PRODUCTS with mark-up rates between 4%-5% during FY2019 and FY2020. Accordingly, we consider that it is practically reasonable to set a pricing policy for such products with reference to the cost-plus basis with an overall mark-up rate not below 4%.

Payment terms

Detailed payment terms of the Sale Transactions (settle the total price for all the products supplied under that purchase order within 120 days from the date of the purchase order being made) and the Purchase Transactions (for products not related to SHARP PRODUCTS: settle the price of the products within 120 days from the date of delivery of the products; for SHARP PRODUCTS: settle the price of the products within 30 days after invoice date or 30 days following the end of the month) are set out under the sections headed "Payment Terms of Sales made by the Group", "Payment Terms of Purchases made by the Group (not related to SHARP PRODUCTS)" and "Payment Terms of Purchases made by the Group (Related to SHARP PRODUCTS)" of the Board Letter.

We understood from the Directors that the payment terms offered to/by Hon Hai Group may not be the same as those offered to/by independent third parties. Nevertheless, after taking into account that (i) under the two-way business partnership between the Group and the Hon Hai Group, except the payment terms for the purchases of SHARP PRODUCTS made by the Group, the payment terms of Sale Transactions and the Purchase Transactions are reciprocal; (ii) the payment terms of sales made by the Group to certain independent third parties are also within 120 days from the date of the purchase order being made; and (iii) in respect of SHARP PRODUCTS, the members of the Group would settle the price of the products within 30 days after invoice date or 30 days following the end of the month and the payment terms in relation to the purchases made by the Group from certain independent third parties are 30 or 60 days following the end of the month, we consider the payment terms of the Sale Transactions and the Purchase Transactions are justifiable.

Annual review

With reference to the 2020 Annual Report, the independent non-executive Directors have reviewed the Continuing Connected Transactions for FY2020 and, in their opinion, the Continuing Connected Transactions were entered into by the Company: (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms; and (iii) according to the agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

LETTER FROM GRAM CAPITAL

The Company's auditors were also engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. Based on the work performed, the auditors of the Company confirmed to the Board that, among other things, nothing has come to their attention that causes them to believe that the Continuing Connected Transactions for FY2020 (i) had not been approved by the Board; (ii) were not, in all material respects, in accordance with the pricing policies of the Group (only applicable to the Sale Transactions); (iii) were not entered into, in all material respects, in accordance with the relevant agreement governing the Continuing Connected Transactions; and (iv) had exceeded the relevant cap disclosed previously.

LETTER FROM GRAM CAPITAL

3. The Caps

Set out below are (i) the historical amount of the Continuing Connected Transactions for the two years ended 31 December 2020 and the ten months ended 31 October 2021; (ii) the historical annual caps of the Continuing Connected Transactions for the three years ending 31 December 2021; and (iii) the Caps for the three years ending 31 December 2024:

	For the year ended 31 December 2019 HK\$'000	For the year ended 31 December 2020 HK\$'000	For the ten months ended 31 October 2021 HK\$'000
Historical amount of the Sale Transactions	1,867,647	1,671,841	2,110,445
Historical amount of the Purchase Transactions	1,342,565	1,986,605	1,951,486
	For the year ended 31 December 2019 HK\$'000	For the year ended 31 December 2020 HK\$'000	For the year ending 31 December 2021 HK\$'000
Historical annual caps of the Sale Transactions (the “ Historical Sale Cap(s) ”)	5,600,000	7,200,000	9,000,000
<i>Utilisation rate</i>	33%	23%	<i>Undetermined yet</i>
Historical annual caps of the Purchase Transactions (the “ Historical Purchase Cap(s) ”)	1,700,000	2,200,000	2,700,000
<i>Utilisation rate</i>	79%	90%	<i>Undetermined yet</i>
	For the year ending 31 December 2022 HK\$'000	For the year ending 31 December 2023 HK\$'000	For the year ending 31 December 2024 HK\$'000
Sale Caps	3,200,000	3,700,000	4,300,000
Purchase Caps	2,600,000	3,000,000	3,500,000

LETTER FROM GRAM CAPITAL

Analysis on the Sale Caps

Detailed basis of determining the Sale Caps for the three years ending 31 December 2024 is set out under the sub-section headed “BASIS OF THE CAPS – Sale Caps” in the Board Letter.

From the above tables, we noted that the utilisation rates of the Historical Sale Caps for FY2019 and FY2020 were low.

With reference to the Board Letter and as advised by the Directors, the estimated amount for the Sale Transactions for the year ending 31 December 2021 (“**FY2021**”) is approximately HK\$2,521 million, which is estimated with reference to the annualised amount of the Sale Transactions for the ten months ended 31 October 2021. The Directors also confirmed us that there is no significant seasonal factor associated with the Sale Transactions.

Based on the estimated amount of the Sale Transactions for FY2021 as aforementioned, the estimated utilisation rate of the Historical Sale Cap for FY2021 would only be approximately 28%. It is reasonable for the Company to set the Sale Cap for the year ending 31 December 2022 (“**FY2022**”) at a significantly lower level as compared to the Historical Sale Cap for FY2021.

We noticed that the Company applied year-on-year growth rates from approximately 14% to 16% to estimate the amounts of Sale Transactions for the three years ending 31 December 2024 (i.e. approximately HK\$2,880 million for FY2022, HK\$3,330 million for the year ending 31 December 2023 (“**FY2023**”) and HK\$3,870 million for the year ending 31 December 2024 (“**FY2024**”). Based on such estimated amounts of Sale Transactions, the Company determined the Sale Caps for the three years ending 31 December 2024 by incorporating a buffer of 10% (the “**Buffer**”).

We consider the aforesaid year-on-year growth rates from approximately 14% to 16% to be reasonable after taking into account:

- (i) The Group’s revenue growth of approximately 10% from FY2019 to FY2020 and 106% from 1H2020 to 1H2021.
- (ii) The historical amount of the Sale Transactions for the ten months ended 31 October 2021 far exceeded that for FY2020.
- (iii) Based on the information provided by the Company the historical amount of the Sale Transactions for the ten months ended 31 October 2021 increased by approximately 67% as compared to that for the corresponding period of 2020.
- (iv) With reference to the Board Letter and as confirmed by the Directors, increasing popularity of AI integrated TVs, household appliances and other smart devices such as cleaning robot and drone, boosting demand and use of other electronic products and the effect of shortening of technology life-cycle of consumer electronics which rapidly phases out the old products will also lead to increase in Sale Transactions. In particular, having considered the AI development in many countries, the Directors expect that the sales of memorial ICs (e.g. dynamic random access memory chips and flash memory chips), radio frequency modules, larger storage memory chips, distance measurement and dust sensors and optical couplers to be sold to the Hon Hai Group will increase.

LETTER FROM GRAM CAPITAL

In respect of the Buffer of 10%, we noted from other Hong Kong listed companies' circulars regarding continuing connected transactions that the incorporation of buffer of 10% in determining proposed annual caps is common among Hong Kong listed companies. Accordingly, we consider the Buffer to be reasonable.

In light of the above, we consider the Sale Caps for the three years ending 31 December 2024 to be fair and reasonable.

Analysis on the Purchase Caps

Detailed basis of determining the Purchase Caps for the three years ending 31 December 2024 is set out under the sub-section headed "BASIS OF THE CAPS – Purchase Caps" in the Board Letter.

From the above tables, we noted that the utilisation rates of the Historical Purchase Caps for FY2019 and FY2020 were approximately 79% and 90% respectively.

With reference to the Board Letter and as advised by the Directors, the estimated amount for the Purchase Transactions for FY2021 is approximately HK\$2,340 million, which is estimated with reference to the annualised amount of the Purchase Transactions for the ten months ended 31 October 2021. The Directors also confirmed us that there is no significant seasonal factor associated with the Purchase Transactions.

Based on the estimated amount of the Purchase Transactions for FY2021 as aforementioned, the estimated utilisation rate of the Historical Purchase Cap for FY2021 would be approximately 87%. As (i) the Historical Purchase Caps for the three years ending 31 December 2021 were not/is not expected to be fully utilised; and (ii) the utilisation rates/estimated utilisation rate of the Historical Purchase Caps for the three years ending 31 December 2021 were between 79% to 90%, it is reasonable for the Company to set the Purchase Cap for FY2022 at a slightly lower level as compared to the Historical Purchase Cap for FY2021.

We noticed that the Company (i) did not apply any growth rate to estimate the amount of Purchase Transaction for FY2022; and (ii) applied year-on-year growth rates of approximately 15% and 17% to estimate the amounts of Purchase Transactions for the two years ending 31 December 2024. Accordingly, the estimated amount of Purchase Transaction will be approximately HK\$2,340 million for FY2022, approximately HK\$2,700 million for FY2023 and approximately HK\$3,151 million for FY2024. Based on such estimated amounts of Purchase Transactions, the Company determined the Purchase Caps for the three years ending 31 December 2024 by incorporating the Buffer.

As advised by the Directors, despite the factors which may contribute to the growth in the Purchase Transactions during the three years ending 31 December 2024 as set out under the sub-section headed "BASIS OF THE CAPS – Purchase Caps" in the Board Letter, the End-Customers may cease to demand certain Purchase Products from FY2022 as their production of new products may not require such Purchase Products. Accordingly, the possible growth in the Purchase Transactions in FY2022 may be partially off-set of this fact and, for prudent sake, the Directors did

LETTER FROM GRAM CAPITAL

not adopt a growth rate to estimate the amount of Purchase Transaction for FY2022. The Directors consider that applying the Buffer for determining the Purchase Cap for FY2022 is sufficient to cover possible growth (which may be partially off-set) in Purchase Transactions during FY2022.

We consider the aforesaid year-on-year growth rates of approximately 15% for FY2023 and approximately 17% for FY2024 to be reasonable after taking into account:

- (i) The Group's revenue growth of approximately 10% from FY2019 to FY2020 and 106% from 1H2020 to 1H2021.
- (ii) The historical amount of the Purchase Transactions for FY2020 increased by approximately 48% as compared to that for FY2019.
- (iii) The historical amount of the Purchase Transactions for the ten months ended 31 October 2021 was closed to that for FY2020.
- (iv) Based on the information provided by the Company the historical amount of the Purchase Transactions for the ten months ended 31 October 2021 increased by approximately 52.5% as compared to that for the corresponding period of 2020.
- (v) With reference to the Board Letter and as confirmed by the Directors, continuous growth of demand for consumer electronics, expected introduction of new smartphones and earphones which employed Hon Hai connectors, modules and clips and continuous growth on the distribution sale volume of various products under the brand name of "SHARP" will lead to increase in Purchase Transactions.

In respect of the Buffer, we noted from other Hong Kong listed companies' circulars regarding continuing connected transactions that the incorporation of buffer of 10% in determining proposed annual caps is common among Hong Kong listed companies. Accordingly, we consider the Buffer to be reasonable.

In light of the above, we consider the Purchase Caps for the three years ending 31 December 2024 to be fair and reasonable.

Shareholders should note that as the Caps are relating to future events and were estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2024, and they do not represent forecasts of purchase costs/revenue/income to be incurred from the Continuing Connected Transactions. Consequently, we express no opinion as to how closely the actual purchase costs/revenue/income to be incurred from the Continuing Connected Transactions will correspond with the Caps.

Having considered the principal terms of the Continuing Connected Transactions as set out above (including the Caps), we are of the view that the terms of the Continuing Connected Transactions are on normal commercial terms and are fair and reasonable.

LETTER FROM GRAM CAPITAL

4. Listing Rules implication

The Directors confirmed that the Company shall comply with the requirements of Rules 14A.53 to 14A.59 of the Listing Rules pursuant to which (i) the values of the Continuing Connected Transactions must be restricted by the Caps for the period concerned under the Conditional Master Agreement; (ii) the terms of the Conditional Master Agreement must be reviewed by the independent non-executive Directors annually; (iii) details of independent non-executive Directors' annual review on the terms of the Conditional Master Agreement must be included in the Company's subsequent published annual reports and financial accounts. Furthermore, it is also required by the Listing Rules that the auditors of the Company must provide a letter to the Board confirming, among other things, whether anything has come to their attention that causes them to believe that the Continuing Connected Transactions (i) have not been approved by the Board; (ii) were not, in all material respects, in accordance with the pricing policies of the Group (only applicable to the Sale Transactions); (iii) were not entered into, in all material respects, in accordance with the relevant agreement governing the transactions; and (iv) have exceeded the Caps. In the event that the total amounts of the Continuing Connected Transactions exceed the Caps, or that there is any material amendment to the terms of the Conditional Master Agreement, as confirmed by the Directors, the Company shall comply with the applicable provisions of the Listing Rules governing continuing connected transactions.

Given the above stipulated requirements for continuing connected transactions pursuant to the Listing Rules, we are of the view that there are adequate measures in place to monitor the Continuing Connected Transactions and thus the interest of the Independent Shareholders would be safeguarded.

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Continuing Connected Transactions (including the Caps) are on normal commercial terms and are fair and reasonable; and (ii) the Continuing Connected Transactions are conducted in the ordinary and usual course of business of the Company and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution to be proposed at the SGM to approve the Conditional Master Agreement and the transactions contemplated thereunder and we recommend the Independent Shareholders to vote in favour of the resolution in this regard.

Yours faithfully,
For and on behalf of
Gram Capital Limited
Graham Lam
Managing Director

Notes: Mr. Graham Lam is a licensed person registered with the Securities and Futures Commission and a responsible officer of Gram Capital Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 25 years of experience in investment banking industry.

1. RESPONSIBILITY STATEMENT

This document, for which the directors of the issuer collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the issuer. The directors having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this document is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this document misleading.

2. DISCLOSURE OF INTERESTS

(i) Directors and Chief Executive of the Company

As at the Latest Practicable Date, the interests and short positions of each director and chief executive of the Company and each of their respective associates, in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) were required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules to be notified to the Company and the Stock Exchange were as follows:

Long positions

(a) Ordinary shares of HK\$0.10 each of the Company

Name	Capacity	Number of shares held as at the Latest Practicable Date	Percentage of issued share capital of the Company as at the Latest Practicable Date
Yim Yuk Lun,	Beneficial owner	114,530,000	18.30%
Stanley <i>BBS JP</i>	Held by controlled corporation ^(Note 1)	227,542,800	36.36%
		<u>342,072,800</u>	<u>54.66%</u>
Wong Sui Chuen	Beneficial owner	1,824,000	0.29%
Tsui Chi Wing, Eric	Beneficial owner	714,800	0.11%

Note 1: Unimicro Limited, a company incorporated in the British Virgin Islands, is wholly-owned by Yim Yuk Lun, Stanley *BBS JP* and therefore Yim Yuk Lun, Stanley *BBS JP* is deemed to be interested in the shares owned by Unimicro Limited under the SFO.

- (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,	Beneficial owner ^(Note 2)	43,122,861	6.61%
Stanley <i>BBS JP</i>	Held by controlled corporation ^(Note 2)	<u>219,543,000</u>	<u>33.63%</u>
		<u>262,665,861</u>	<u>40.24%</u>
Wong Wai Tai	Beneficial owner	3,300,000	0.51%
Tsui Chi Wing, Eric	Beneficial owner	3,233,753	0.50%
Wong Sui Chuen	Beneficial owner	2,531,328	0.39%
Yim Tsz Kit, Jacky	Beneficial owner	300,000	0.05%

Note 2: Yim Yuk Lun, Stanley *BBS JP* beneficially owns 43,122,861 Hi-Level shares and is the controlling shareholder of the Company; he is therefore under the SFO deemed to be interested in 219,543,000 Hi-Level shares held by S.A.S. Investment Company Limited which is a wholly-owned subsidiary of the Company.

Save as disclosed above, 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 position in any shares, underlying shares or debentures of the Company or any of its associated corporations at the Latest Practicable Date.

(ii) Substantial Shareholders

As at the Latest Practicable Date, so far as was known to any director or chief executive of the Company, the following persons (other than a director or the chief executive of the Company) had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of them SFO, or who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Long positions in shares of the Company

Name	Capacity	Number of Shares held as at the Latest Practicable Date	Percentage of issued share capital of the Company as at the Latest Practicable Date
Hon Hai	Held by controlled corporation ^(Note)	124,000,000	19.81%
Foxconn	Beneficial owner	124,000,000	19.81%

Note: Foxconn, a company incorporated in the British Virgin Islands, is wholly-owned by Hon Hai and therefore Hon Hai is deemed to be interested in the shares owned by Foxconn under the SFO.

3. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had a service contract or a proposed service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

4. COMPETING INTERESTS

As at the Latest Practicable Date,

- (a) none of the Directors nor any proposed director nor their respective associates had any interests in a business which competes or may compete, either directly or indirectly, with the business of the Group or any other conflicts of interests with the Group; and
- (b) none of the Directors nor any proposed director nor their respective associates has any direct or indirect interest in any assets which have been, since 31 December 2020, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

5. EXPERT'S QUALIFICATION AND CONSENT

The following are the qualifications of the expert who has given its opinions and advice which are included in this circular:

Name	Qualification
Gram Capital	a licensed corporation to carry out type 6 (advising on corporate finance) regulated activity under the SFO

Gram Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and/or opinion (as the case may be) and all references to its name in the form and context in which they appear.

As at the Latest practicable Date, Gram Capital was not beneficially interested in the share capital of any member of the Group nor did it has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group nor did it has any interest, either direct or indirect, in any assets which have been, since the date to which the latest published audited consolidated financial statements of the Group were made up (that is, 31 December 2020), acquired, disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

6. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading positions of the Group since 31 December 2020, being the date to which the latest published audited financial statements of the Group were made up.

7. MISCELLANEOUS

- (i) Mr. Wong Wai Tai, a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants, is the secretary of the Company.
- (ii) Gram Capital, a licensed corporation to carry out type 6 (advising on corporate finance) regulated activity under the SFO and the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Conditional Master Agreement.
- (iii) Gram Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion of and references to its name and/or letter in the form and context in which they respectively appear.
- (iv) The English text of this circular shall prevail over the Chinese text in the case of inconsistency.

8. DOCUMENTS ON DISPLAY

Copy of the following documents will be published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.sasdragon.com.hk) for the period of 14 days from the date of this circular:

- (i) the Conditional Master Agreement;
- (ii) the Distribution Agreements;
- (iii) the Purchase Agreement;
- (iv) letter from the Independent Board Committee dated 14 February 2022;
- (v) letter from Gram Capital dated 14 February 2022;
- (vi) the written consent referred to in the paragraph headed “Expert’s qualification and consent” in this appendix.

NOTICE OF THE SGM



S.A.S. Dragon Holdings Limited

(incorporated in Bermuda with limited liability)

(Stock Code: 1184)

NOTICE IS HEREBY GIVEN that a special general meeting of S.A.S. Dragon Holdings Limited (the “**Company**”) will be held at 20/F., S.A.S. Tower, 55 Lei Muk Road, Kwai Chung, New Territories, Hong Kong on 1 March 2022 at 11:00 a.m. or at any adjournment thereof for the purpose of considering and, if thought fit, passing the following resolutions, with or without amendments, as an ordinary resolution of the Company:

ORDINARY RESOLUTIONS

“**THAT,**

- (a) the Conditional Master Agreement and the Caps, each as defined and described in the circular of the Company dated 14 February 2022 (the “**Circular**”) (a copy of the Conditional Master Agreement marked “A” together with a copy of the Circular marked “B” being tabled before the meeting and initialled by the chairman of the meeting for identification purpose), and all Continuing Connected Transactions (as defined in the Circular) contemplated thereunder and in connection therewith, be and are hereby approved, ratified and confirmed;
- (b) all Continuing Connected Transactions (as defined in the Circular) negotiated, performed or carried out during the period between 1 January 2022 and the date of this meeting be approved, ratified and confirmed; and
- (c) any one director of the Company be and is hereby authorised for and on behalf of the Company to execute all such other documents and agreements and to do all such acts or things deemed by him to be incidental to, ancillary to or in connection with the matters contemplated under the Conditional Master Agreement, the Caps and the Continuing Connected Transaction contemplated thereunder and to agree to any amendment to any of the terms of Conditional Master Agreement which in the opinion of the Director(s) is/are in the interests of the Company and in accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (where relevant).”

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

Hong Kong, 14 February 2022

NOTICE OF THE SGM

Notes:

1. The ordinary resolutions to be considered at the meeting will be decided by poll. On voting by poll, each member shall have one vote for each share held in the Company.
2. A member entitled to attend and vote at the meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member may appoint a proxy in respect of part only of his holding of shares in the Company. A proxy need not be a member of the Company.
3. A form of proxy for use at the special general meeting is enclosed herewith.
4. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation, either under seal or under the hand of an officer, attorney or other person authorized to sign the same.
5. To be valid, the proxy form, together with the power of attorney or other authority (if any) under which it is signed, or a certified copy thereof must be lodged at the Company's branch share registrar in Hong Kong, Tricor Secretaries Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, not less than forty-eight (48) hours before the time appointed for holding the meeting or any adjourned meeting thereof (as the case maybe) and in default thereof the proxy form and such power or authority shall not be treated as valid.
6. Delivery of an instrument appointing a proxy shall not preclude a member from attending and voting in person at the meeting convened and in such event, the instrument appointing a proxy shall be deemed to be revoked.
7. Where there are joint holders of any share of the Company, any one of such joint holders may vote at any meeting, either in person or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders be present at the meeting the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of the Company in respect of the joint holding.
8. As at the date hereof, the Board comprises five executive directors are Dr. Yim Yuk Lun, Stanley *BBS JP*, Mr. Wong Sui Chuen, Mr. Yim Tsz Kit, Jacky, Mr. Wong Wai Tai and Mr. Tsui Chi Wing, Eric and four independent non-executive directors are Mr. Wong Tak Yuen, Adrian, Mr. Liu Chun Ning, Wilfred, Mr. Cheung Chi Kwan and Mr. Wong Wai Kin.