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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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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 S.A.S. Dragon Holdings Limited, you should at once hand this circular and the accompanying 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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**GROUP**

# **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**



**Gram Capital Limited**  
**嘉林資本有限公司**

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A letter from the Independent Board Committee is set out on page 31 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 32 to 44 of this circular.

A notice convening the SGM to be held at 28/F., Noble Centre, No. 1006, 3rd Fuzhong Road, Futian District, Shenzhen, P.R.C. on Thursday, 19 December 2024 at 11:00 a.m. is set out on pages 50 to 51 of this circular. Whether or not you intend to attend the SGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's Share Registrars in Hong Kong, Tricor Secretaries Limited, at 17/F., Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as possible and in any event not less 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 attending and voting in person at the SGM or any adjournment thereof (as the case may be) should you so wish.

19 November 2024

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## DEFINITIONS

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*In this circular, unless the context requires otherwise, the following expressions have the meanings as set out below:*

“Announcement”	the announcement issued by the Company dated 26 September 2024;
“associate(s)”	have the meaning ascribed to it in the Listing Rules;
“Board” or “Directors”	the board of Directors;
“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 Main Board of the Stock Exchange (Stock Code: 1184);
“Conditional Master Agreement”	the conditional master agreement dated 26 September 2024 entered into between the Company and Hon Hai in relation to the sales and purchases of electronic components and distribution of brand products under the Hon Hai Group between the Group and the Hon Hai Group for the three financial years from 1 January 2025 to 31 December 2027 (both dates inclusive);
“connected person(s)”	have the meaning ascribed to it in the Listing Rules;
“Continuing Connected Transactions”	the Purchase Transactions and the Sale Transactions;
“Director(s)”	the director(s) of the Company;
“Distribution Agreements”	<ol style="list-style-type: none"><li>(1) the distributorship agreement made between FIT Taiwan and S.A.S. Electronic (as distributor) dated 1 January 2024 in relation to the distribution of FIT Taiwan’s electronic components and other products, such as connector and cable, by S.A.S. Electronic, in Taiwan, East China, South China and North China; and</li><li>(2) the distributorship agreement made between Huai An Fulitong Trading and S.A.S. Electronic (Shenzhen) (as distributor) dated 1 January 2024 in relation to the distribution of Huai An Fulitong Trading’s electronic components and other products, such as connector and cable, by S.A.S. Electronic (Shenzhen), in East China and South China;</li></ol>

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## DEFINITIONS

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“East China”	Zhejiang Province, Jiangsu Province, Shanghai Municipality, Shangdong Province, Fujian Province, Jiangxi Province and Anhui Province;
“FIT Hon Teng”	FIT Hon Teng Limited (鴻騰六零八八精密科技股份有限公司), a company incorporated in the Cayman Islands with limited liability under the name Foxconn Interconnect Technology Limited, carrying on business in Hong Kong as FIT Hon Teng Limited, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 6088), is owned as to 71.05% by Hon Hai;
“FIT Taiwan”	Foxconn Interconnect Technology Limited Taiwan Branch, a branch of FIT Hon Teng (which is a non-wholly-owned subsidiary of Hon Hai) established in Taiwan;
“Foxconn”	Foxconn Infinite Pte. Ltd., a company registered in Singapore by transfer of registration of Foxconn Holding Limited from the British Virgin Islands on 16 June 2023, a wholly owned subsidiary of Hon Hai and a substantial shareholder of the Company;
“Group”	the Company and its subsidiaries;
“Gram Capital” or “Independent Financial Adviser”	Gram Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Caps, the Conditional Master Agreement and the transactions contemplated thereunder;
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong;
“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 Fulitong Trading and their respective subsidiaries or associates;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Huai An Fulitong Trading”	Huai An Fulitong 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 an indirect wholly-owned subsidiary of FIT Hon Teng (which is a non-wholly-owned subsidiary of Hon Hai);

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## DEFINITIONS

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“Independent Board Committee”	an independent board committee of the Company consisting of all the independent non-executive Directors, namely 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 Caps, the Conditional Master Agreement and the transactions contemplated thereunder;
“Independent Shareholder(s)”	Shareholder(s) other than Hon Hai, FIT Taiwan, Foxconn, Huai An Fultong Trading and any of their respective associates;
“Latest Practicable Date”	12 November 2024, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Macau” or “Macao”	the Macau Special Administrative Region of the PRC;
“North China”	Hebei 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;
“Previous Conditional Master Agreement”	the master agreement entered into between the Company and Hon Hai dated 2 December 2021 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 2022 and 31 December 2024 (both dates inclusive);
“PRC”	the People’s Republic of China excluding Hong Kong, Macau and Taiwan;
“Purchase Agreement”	the purchase agreement dated 8 March 2013 made between Hon Hai and S.A.S. Electronic (Shenzhen) in relation to the purchase of electronic components and other products by Hon Hai and other purchase agreement(s) which may be made between the Group and the Hon Hai Group for the purpose of purchasing electronic components and other products by the Hon Hai Group;
“Purchase Caps”	for the purpose of Chapter 14A of the Listing Rules, means the annual caps of HK\$2,800 million, HK\$3,300 million and HK\$3,800 million for each of the three financial years ending 31 December 2025, 2026 and 2027 respectively in respect of the Purchase Transactions;

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## DEFINITIONS

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“Purchase Transactions”	the purchases of electronic components and brand products under the Hon Hai Group by the Group from the Hon Hai Group under the Conditional Master Agreement;
“Sale Caps”	for the purpose of Chapter 14A of the Listing Rules, means the annual caps of HK\$2,300 million, HK\$2,700 million and HK\$3,200 million for each of the three financial years ending 31 December 2025, 2026 and 2027 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. 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;
“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 the Laws of Hong Kong);
“SGM”	the special general meeting of the Company to be held at 28/F., Noble Centre, No. 1006, 3rd Fuzhong Road, Futian District, Shenzhen, P.R.C. on Thursday, 19 December 2024 at 11:00 a.m. to approve the Caps, the Conditional Master Agreement and the transactions contemplated thereunder, notice of which is set out on pages 50 to 51 of this circular;
“Shareholder(s)”	holder(s) of shares of the Company;
“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; and
“%”	per cent.

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## LETTER FROM THE BOARD

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# S.A.S. Dragon Holdings Limited

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 1184)**

*Executive Directors:*

Dr. Yim Yuk Lun, Stanley *SBS BBS JP*

*Chairman and Managing Director*

Mr. Wong Sui Chuen

Mr. Yim Tsz Kit, Jacky

Mr. Wong Wai Tai

Mr. Tsui Chi Wing, Eric

*Non-Executive Director:*

Ms. Yim Kei Man, Carmen

*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

N. T.

Hong Kong

19 November 2024

*To the Shareholders*

Dear Sir or Madam,

## **CONTINUING CONNECTED TRANSACTIONS AND NOTICE OF SPECIAL GENERAL MEETING**

### **INTRODUCTION**

Reference is made to the announcements of the Company 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, 28 December 2018, 2 December 2021, 22 December 2021, 14 January 2022, 28 January 2022 and 11 February 2022 as well as the circulars of the Company dated 12 December 2006, 3 December 2009, 29 April 2010, 3 December 2012, 18 December 2015, 15 January 2019 and 14 February 2022 in relation to the Continuing Connected Transactions. Since the Previous Conditional Master Agreement will expire on 31 December 2024, in anticipation of such continuing sales and purchases of electronic

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## LETTER FROM THE BOARD

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components and distribution of brand products under the Hon Hai Group between the Group and the Hon Hai Group in future, on 26 September 2024, the Company entered into the Conditional Master Agreement with Hon Hai which governs the sales and purchases of electronic components and distribution of brand products under the Hon Hai Group to be made for the next three financial years during the period between 1 January 2025 and 31 December 2027 (both dates inclusive).

The Major terms of the Conditional Master Agreement and the Previous Conditional 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 Gram Capital 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 26 September 2024 which governs the sales and purchases of electronic components and distribution of brand products under the Hon Hai Group between the Group and the Hon Hai Group to be made for the next three financial years during the period between 1 January 2025 and 31 December 2027 (both dates inclusive). The principal terms of the Conditional Master Agreement are set out below:

Date:	26 September 2024
Parties:	The Company Hon Hai
Subject matter:	sales and purchases of electronic components and distribution of brand products under the Hon Hai Group between the Group and the Hon Hai Group
Term:	from 1 January 2025 to 31 December 2027

The Conditional Master Agreement is conditional upon the approval of the Conditional Master Agreement, the Caps and the Continuing Connected Transactions contemplated thereunder by the Independent Shareholders at the SGM.

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## LETTER FROM THE BOARD

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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.

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## LETTER FROM THE BOARD

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### SALES AND PURCHASES BETWEEN THE GROUP AND THE HON HAI GROUP



Established in Taiwan in 1974, Hon Hai, a company listed on the Taiwan Stock Exchange Corporation (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, artificial intelligence (AI), Smart Networks, and Robotics/Automation, Hon Hai 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. In 2023, Hon Hai's annual revenue reached USD198 billion.

Hon Hai has established R&D and manufacturing centers in other market around the world including China, India, Japan, Vietnam, Malaysia, Czech Republic, U.S. and more. With a focus on research and development, Hon Hai owns more than 57,729 patents. In addition to maximizing value-creation for customers who include many of the world's leading technology companies. Hon Hai/Foxconn is also dedicated to championing environmental sustainability in the manufacturing process and serving as a best-practices model for global enterprises.

Hon Hai has received widespread international accolades and recognition since its establishment. Hon Hai ranked 27th on the Fortune Global 500 rankings in 2023 and 25th in the Top 100 Digital Companies in the Forbes ranking of the World's Best Employers in 2019. Moreover, on Forbes' World's Best Employers 2021 rankings, Hon Hai ranked 1st in Taiwan. Foxconn is also the only Taiwanese private company awarded for 7 consecutive years of Clarivate Top 100 Global Innovators (2018 – 2024).

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.

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 innovative environmental-friendly lifestyle enhancement finished products under SHARP **SHARP** and our owned brands of Light in Motion  and LIM InfraSystems  in the Asia Pacific region.

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## LETTER FROM THE BOARD

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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>.

### **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 policies 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, 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.

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## LETTER FROM THE BOARD

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### **Payment Terms of Purchases made by the Group**

Under the Distribution Agreements, 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, 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.

### **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, 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 2%.

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.

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## LETTER FROM THE BOARD

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### *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, 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 2023, 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 factors (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;

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## LETTER FROM THE BOARD

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- (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 purchases of electronic components and distribution of brand products under the Hon Hai Group between the Group and Hon Hai and its subsidiaries or associates for the next three financial years, i.e. from 1 January 2025 to 31 December 2027, such profit margin is determined by reference to the average gross profit margin rates of our Group in the last three financial years, i.e. 5.16%, which were 4.5%, 5.1% and 5.9% for the financial year ended 31 December 2021, 2022 and 2023 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.

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## LETTER FROM THE BOARD

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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 markup 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 2.5% to 3.08% for the financial years ended 31 December 2021, 31 December 2022 and 31 December 2023 and the seven months ended 31 July 2024.

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. the 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 0.4%-0.9% of revenue for the financial years ended 31 December 2021, 31 December 2022, 31 December 2023 and the seven months ended 31 July 2024, thus even though the average gross profit margin of sales to the Hon Hai Group (namely between 2.5% and 3.08%) is in general lower than that of sales to all customers (namely between 4.5% and 5.9%), 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 the Taiwan Stock Exchange Corporation (Stock Code: 8112) and Edom Technology Company Limited which is a company listed on the Taiwan Stock Exchange Corporation (Stock Code: 3048).

Referring to the interim reports of the Supreme Electronics Company Limited and interim reports of the Edom Technology Company Limited in 2024, their gross profit ratios are both around 3%. Since the sale to the Han Hai Group has gross profit margin rates of between 2.5% and 3.08% which is comparable to 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.

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## LETTER FROM THE BOARD

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The overall gross profit mark-up rates for sale to the Hon Hai Group for the financial year ended 31 December 2021, 2022 and 2023 are as follows:

<b>Overall gross profit mark-up rates for sale to the Hon Hai Group (%)</b>	<b>For the financial year ended 31 December 2021</b>	<b>For the financial year ended 31 December 2022</b>	<b>For the financial year ended 31 December 2023</b>
1.5 – 2	8%	3%	21%
2.01 – 3	19%	29%	38%
3.01 or above	73%	68%	41%
Total	100%	100%	100%

As shown, most sales to the Hon Hai Group have more than 2% of the gross profit mark-up rate for the three financial years ended 31 December 2021, 2022 and 2023. 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 2% in general only account for less than 30% of the sale for the three financial years ended 31 December 2021, 2022 and 2023. During 2020 to 2021, the Hon Hai Group relocated its manufacturing production line to Vietnam and India to diversify and expand outside China because of the strategy of “China plus one” after COVID-19. As 2021 to 2024 is the transitional period for the Hon Hai Group to set up its new production line, the demand of sales product from the Hon Hai Group to the Group has reduced. As a matter of goodwill and to maintain a long-term friendly relationship with the Hon Hai Group as the Group’s long-standing customer, the Group therefore was willing to cut the gross profit mark-up rate during 2021 to 2024 for sale to the Hon Hai Group. The Group forecasts the sales to the Hon Hai Group will go up in the next three financial years. 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 interim reports of Supreme Electronics Company Limited in 2024 is extracted from <http://www.supreme.com.tw>
- (ii) The interim reports of Edom Technology Company Limited in 2024 is extracted from <http://www.edomtech.com>

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## LETTER FROM THE BOARD

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### Price Policy for Purchases

#### *Purchases made by the Group*

The current price negotiation mechanism in relation to the purchases of 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 Hon Hai Group with reference to the mark-up rate not below 2%. The mark-up rate for purchases for the three financial years ended 31 December 2021, 2022 and 2023 was 2.4%, 2.4% and 2.4% respectively. 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 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 2% 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 5.16% for the three financial years ended 31 December 2021, 2022 and 2023 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 2% over our purchase price of the products.

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## LETTER FROM THE BOARD

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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.

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.

### *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:

#### *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 sale 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 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. 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;

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## LETTER FROM THE BOARD

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- (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*

- (i) in respect of the Purchase Transactions, 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 2% 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 based on the cost-plus basis of a mark-up rate not below 2% over our purchase price of the products as set out in factor (ii) in page 15 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.

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## LETTER FROM THE BOARD

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### *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 Conditional Master Agreement for the financial year ended 31 December 2023 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 possess 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.

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.

### **SALE AND PURCHASE 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;
- (iv) production and testing equipment; and
- (v) mechanical hardware solutions for AI server.

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## LETTER FROM THE BOARD

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

- (i) cables and connectors and accessory;
- (ii) keyboards parts and earphone parts; and
- (iii) flexible print circuits.

The following is a summary of the approximate amounts of transactions in respect of the sales and purchases of electronic components and distribution of brand products under the Hon Hai Group between the Group and the Hon Hai Group for the two financial years ended 31 December 2022 and 31 December 2023 and the seven months ended 31 July 2024 respectively:

	<b>For the financial year ended 31 December 2022 <i>HK\$'000</i> (Audited)</b>	<b>For the financial year ended 31 December 2023 <i>HK\$'000</i> (Audited)</b>	<b>For the seven months ended 31 July 2024 <i>HK\$'000</i> (Unaudited)</b>
Purchases from the Hon Hai Group	1,502,422	1,790,063	1,235,856
Sales to the Hon Hai Group	2,764,831	1,514,919	1,031,030

The aggregated transaction amounts in respect of the sales and purchases of electronic components and distribution of brand products under the Hon Hai Group between the Group and the Hon Hai Group for the two financial years ended 31 December 2022 and 31 December 2023 and the seven months ended 31 July 2024 have not exceeded (i) the purchase caps of HK\$2,600 million, HK\$3,000 million and HK\$3,500 million; and (ii) the sale caps of HK\$3,200 million, HK\$3,700 million and HK\$4,300 million, for each of the three financial years ended 31 December 2022, 2023 and 2024 respectively which were approved by the Independent Shareholders at the SGM on 9 March 2022.

### Sales Cap

The sale of electronic components by the Group to the Hon Hai Group declined from 2022 to 2023. However, the Board estimates that the Sale Transactions will 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 2024 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 2025, 2026 and 2027 of the Group are set out below:

	For the financial year ending 31 December 2024 <i>HK\$'000</i> (estimated)	For the financial year ending 31 December 2025 <i>HK\$'000</i>	For the financial year ending 31 December 2026 <i>HK\$'000</i>	For the financial year ending 31 December 2027 <i>HK\$'000</i>
Existing business	1,780,000	1,769,850	2,077,650	2,462,400
New business:				
– new suppliers of the Group		207,000 <i>Note 1</i>	243,000 <i>Note 1</i>	288,000 <i>Note 1</i>
– existing suppliers of the Group		93,150 <i>Note 1</i>	109,350 <i>Note 1</i>	129,600 <i>Note 1</i>
Total of new product lines		<u>300,150 <i>Note 1</i></u>	<u>352,350 <i>Note 1</i></u>	<u>417,600 <i>Note 1</i></u>
Total	1,780,000	2,070,000	2,430,000	2,880,000
10% buffer		<u>230,000</u>	<u>270,000</u>	<u>320,000</u>
Proposed Sale Caps		<u>2,300,000</u>	<u>2,700,000</u>	<u>3,200,000</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 2025 to 31 December 2027. For further information of the new products lines, please refer to the section headed “Sale and Purchase Caps – Sale Caps”.

The transactions between the Group and the Hon Hai Group are on purchase order basis. The increase/(decrease) in the annual caps for existing business of approximately (0.61%), 17.39% and 18.51% for the financial years ending 31 December 2025, 2026 and 2027 respectively is due to the fact that technology life-cycle of consumer electronics is shortened which rapidly phases out the old products.

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## LETTER FROM THE BOARD

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Due to the low utilisation rate of the relevant cap for the prior financial years, and the reasonable growth prediction for the financial years ending 31 December 2025, 2026 and 2027, the estimation on Sale Caps is based on the projection of actual transaction amount up to the end of July 2024 on pro rata basis, the sales turnover with the Hon Hai Group of the Group in the first seven months of 2024 and the economic condition as at the end of 2024 and the estimation amount for the financial years ending 2025, 2026 and 2027. The Directors consider the Sale 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 Sale Caps for the years 2025, 2026 and 2027 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 – Sale 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 years ending 31 December 2025 to 31 December 2027, 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, 593, 98, 56 and 7 suppliers in year 2016, 2017, 2018, 2019, 2020, 2021, 2022, 2023 and 2024 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 2025, 31 December 2026 and 31 December 2027 are around HK\$207,000,000, HK\$243,000,000 and HK\$288,000,000 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 2025, 31 December 2026 and 31 December 2027 are around HK\$93,150,000, HK\$109,350,000 and HK\$129,600,000 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 the 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 the Hon Hai Group had increased slightly from 2022 to 2023. 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 2024 which employing 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 2024 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 2025, 2026 and 2027 of the Group respectively are set out below:

	For the financial year ending 31 December 2024 <i>HK\$'000</i> (estimated)	For the financial year ending 31 December 2025 <i>HK\$'000</i>	For the financial year ending 31 December 2026 <i>HK\$'000</i>	For the financial year ending 31 December 2027 <i>HK\$'000</i>
Existing business	880,000	1,008,000	1,188,000	1,368,000
New Projects:				
– New Customers	110,000 <i>Note 1</i>	126,000 <i>Note 2</i>	149,000 <i>Note 2</i>	171,000 <i>Note 2</i>
– Existing Customers	1,210,000 <i>Note 1</i>	1,386,000 <i>Note 2</i>	1,633,000 <i>Note 2</i>	1,881,000 <i>Note 2</i>
Total of new Projects	1,320,000 <i>Note 1</i>	1,512,000 <i>Note 2</i>	1,782,000 <i>Note 2</i>	2,052,000 <i>Note 2</i>
Total	2,200,000	2,520,000	2,970,000	3,420,000
10% buffer		280,000	330,000	380,000
Proposed Purchase Caps		<u>2,800,000</u>	<u>3,300,000</u>	<u>3,800,000</u>

*Notes:*

- The estimation is based on the projection of actual transaction amount for seven months up to the end of July 2024 on pro rata basis.
- New project started on June 2024 and the estimation is based on the actual transaction amount up to July 2024 on pro rata basis and 2025 sale forecast from several customers.

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## LETTER FROM THE BOARD

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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 2025, 2026 and 2027, the estimation on the Purchase Caps is based on the purchase amount from the Hon Hai Group in the first seven months of 2024 and the economic condition as at the end of 2024 and the estimated amounts for the financial year ending 2025, 2026 and 2027.

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 is a non-wholly owned subsidiary of Hon Hai. 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 2024 interim report of FIT Hon Teng, it reveals that (i) FIT Hon Teng anticipate the mobile devices end market will continue to be their main revenue contributor, (ii) For the networking end market, the shipments of copper-based components rebounded in 2024 benefiting from the increased demand in the server market driven by AI, (iii) For the EV mobility end market, on July 3, 2023, FIT Hon Teng successfully completed the acquisition of Prettl SWH Group (renamed FIT Voltaira Group GmbH after acquisition), a German automotive component designer and manufacturer. The addition of the German automotive business team will contribute to the FIT Hon Teng's expansion strategy for EV and accelerate the development of the FIT Hon Teng's EV products in the future, and (iv) For the system products end market, FIT Hon Teng still maintained the competitiveness of the existing acoustic products and branded products and secured new business of high-end wireless Bluetooth earphones from mainstream brand customers, and the demand for wired earphones increased.

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

The increment of the existing business segment in the Purchase 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".

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## LETTER FROM THE BOARD

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### BASIS OF THE CAPS

#### Sale Caps

In determining the proposed Sale Caps of the Continuing Connected Transactions for each of the three financial years ending 31 December 2025, 2026 and 2027 of the Group, the Board has relied on the following major factors:

(a) *Turnover outlook of the Group*

Given the popularity of AI – AI PC/notebook, wearables, earbuds, EV control displays, cloud/edge computing, enterprise data centers, 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 three 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, flash memory chips and displays with high resolution and dynamic refresh rate), radio frequency modules, Bluetooth low energy resolution, larger storage memory chips, distance measurement, proximity sensors, dust sensors and optical couplers and frequency conversion ICs to be sold to the Hon Hai Group will increase comparing the sales in 2023 than the expected sales in 2027.

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 interim result for 2024, their revenue increased by 30% and we expect it will have more demands of our products than the Hon Hai Group.

Further, as disclosed in the interim report of 2024 published by Foxconn Industrial Internet Company Limited (“**FII**”) which is a connected party of the Hon Hai Group and the shares of which are listed on the Shanghai of the Stock Exchange (stock code: 601138), the continuous increasing demand on AI server and cloud 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 interim report of 2024 published by Foxconn Industrial Internet Company Limited at ([https://www.sse.com.cn/disclosure/listedinfo/announcement/c/new/2024-08-05/601138\\_20240805\\_XM4J.pdf](https://www.sse.com.cn/disclosure/listedinfo/announcement/c/new/2024-08-05/601138_20240805_XM4J.pdf))

(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 such as NOR Flash, NAND Flash, NFC sensors, optical networking devices, trans-impedance amplifiers, PDU – power distribution unit, PSU Module – power supply unit module, CDU Module – cooling distribution units module AI, UQD – universal quick disconnect AI, UWB – ultra wide band, pressure sensor, MEMS microphone, VCM – voice coil motor, MCU – micro controller unit and Driver IC – driver integrated circuit 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.

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## LETTER FROM THE BOARD

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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 2025, 2026 and 2027 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 2025, 2026 and 2027 of the Group, the Board based on the following major factors:

- (a) Expanded customer base of the Group in 2024 which employed products supplied by the Hon Hai Group and increasing demand for Hon Hai connectors, modules, clips, smart home system devices and microcontroller units

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 2024 and the Group expects to receive more orders from our end-customers in the next 3 years.

As stated earlier in this circular, FIT Hon Teng has disclosed in their 2024 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.

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## LETTER FROM THE BOARD

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- (b) A buffer of 10% on the estimate of factor (a) above

The buffer of 10% for the financial year ending 31 December 2025, 2026 and 2027 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 2027, certain end-customers will cease to demand certain purchase products from FY2025 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 FY2025 may be partially off-set. The Directors consider that applying the buffer for determining the Purchase Cap for FY2025 is sufficient to cover possible growth (which may be partially off-set) in Purchase Transactions during FY2025.

Taking into account the revenue of FIT Hon Teng from the EV mobility end market has increased by 217% in the six months ended 30 June 2024 compared to that in the same period in 2023, 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 2025, 2026 and 2027 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.

### **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 is a substantial shareholder of the Company. Hon Hai indirectly holds 71.05% of FIT Hon Teng. FIT Taiwan is a branch of FIT Hon Teng established in Taiwan. Huai An Fultong Trading is an indirect wholly-owned subsidiary of FIT Hon Teng. FIT Hon Teng (including FIT Taiwan) and Huai An Fultong Trading are non-wholly owned subsidiaries of Hon Hai. Therefore, Hon Hai, Foxconn, FIT Taiwan, Huai An Fultong Trading 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.

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## LETTER FROM THE BOARD

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To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, as at the Latest Practicable Date, save and except that (i) LU Sung-Ching, directly holds 5.77% of FIT Hon Teng, is a director of FIT Hon Teng; (ii) LU Pochin Christopher, directly holds 0.17% of FIT Hon Teng, is a director of FIT Hon Teng; and (iii) PIPKIN Chester John, directly holds 0.02% of FIT Hon Teng, is a director of FIT Hon Teng, the ultimate beneficial owner(s) of the remaining interest in FIT Hon Teng (including FIT Taiwan) and Huai An Fulitong Trading are third parties independent to the Company and its connected persons.

### 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 is also a distributor of innovative environmental-friendly lifestyle enhancement finished products under SHARP **SHARP** and our owned brands of Light in Motion  and LIM InfraSystems  in the Asia Pacific region.

Hon Hai is a company listed on the Taiwan Stock Exchange Corporation (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 Conditional Master Agreement will expire on 31 December 2024. As a result, the Company entered into the Conditional Master Agreement which governs the Continuing Connected Transactions of sales and purchases of electronic components and distribution of brand products under the Hon Hai Group between the Group and the Hon Hai Group to be made during the period between 1 January 2025 and 31 December 2027 (both dates inclusive).

The Directors (including the independent non-executive Directors after considering 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 (including the independent non-executive Directors after considering 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.

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## LETTER FROM THE BOARD

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### 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 Sale Caps are expected to exceed 5% on an annual basis, the Continuing Connected Transactions constitute non-exempted continuing connected transactions of the Company and the Conditional Master Agreement and the Caps are subject to the announcement 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 consider and 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*

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

*Note:* Hon Hai owns 100% interest in Foxconn 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 Caps, the Conditional Master Agreement and the 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 Caps, the Conditional Master Agreement and the transactions contemplated thereunder.

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## LETTER FROM THE BOARD

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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 2023, 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 and the Independent Shareholders regarding the Conditional Master Agreement, the Caps, and the Continuing Connected Transactions contemplated thereunder. The Independent Board Committee has been 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.

### **SPECIAL GENERAL MEETING**

There is set out on pages 50 to 51 of this circular a notice convening the SGM to be held at 28/F., Noble Centre, No. 1006, 3rd Fuzhong Road, Futian District, Shenzhen, P.R.C. on Thursday, 19 December 2024 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 intend to attend the SGM in person, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's Share Registrars in Hong Kong, Tricor Secretaries Limited, at 17/F., Far East Finance Centre, 16 Harcourt Road, Hong Kong as soon as possible and in any event not less 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 attending and voting in person at the SGM or any adjournment thereof (as the case may be) should you so wish.

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.

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## LETTER FROM THE BOARD

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### 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 31 and 32 to 44 of this circular. Additional information is also set out in the Appendix of this circular for your information.

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

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

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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# S.A.S. Dragon Holdings Limited

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 1184)**

19 November 2024

*To the Independent Shareholders*

Dear Sir or Madam,

### **CONTINUING CONNECTED TRANSACTIONS**

We refer to the circular dated 19 November 2024 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 5 to 30 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 32 to 44 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*

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## LETTER FROM GRAM CAPITAL

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*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

19 November 2024

*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 Continuing Connected Transactions, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 19 November 2024 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 Conditional Master Agreement in relation to the sales and purchases of electronic components and distribution of brand products under the Hon Hai Group between the Group and the Hon Hai Group will expire on 31 December 2024. In anticipation of continuity of the aforesaid transactions, the Company entered into the Conditional Master Agreement with Hon Hai for the three financial years ending 31 December 2027.

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

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## LETTER FROM GRAM CAPITAL

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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 resolutions to approve the Conditional Master Agreement and the transactions contemplated thereunder and the Caps 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

As at the Latest Practicable Date, 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 to the Independent Board Committee and the Independent Shareholders.

### 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 therein or the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

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## LETTER FROM GRAM CAPITAL

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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 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, 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.

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## LETTER FROM GRAM CAPITAL

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Set out below is the financial information of the Group for the two years ended 31 December 2023 and the six months ended 30 June 2024 as extracted from the Company’s annual report for the year ended 31 December 2023 (the “**2023 Annual Report**”) and interim report for the six months ended 30 June 2024 (the “**2024 Interim Report**”):

	<b>For the six months ended 30 June 2024</b>	<b>For the year ended 31 December 2023</b>	<b>For the year ended 31 December 2022</b>	<b>Change from 2022 to 2023</b>
	<i>(unaudited)</i>	<i>(audited)</i>	<i>(audited)</i>	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>%</i>
Revenue	13,639,486	22,370,616	24,968,652	(10.41)
– Sales of electronic components and semiconductors	13,569,461	22,206,540	24,818,008	(10.52)
– Sales of business equipment and provision of related ancillary services	33,407	70,709	69,144	2.26
– Sales and contract works of LED lighting and display products	27,770	72,507	59,026	22.84
– Rental income from investment properties	8,765	19,370	20,061	(3.44)
– Rental income from LED lighting and display products	83	1,490	2,413	(38.25)
Gross profit	804,243	1,316,411	1,285,327	2.42
Profit attributable to owners of the Company	330,288	403,801	400,337	0.87

As illustrated in the above table, the Group’s revenue was approximately HK\$22.37 billion for the year ended 31 December 2023 (“**FY2023**”), representing a decrease of approximately 10.41% as compared to that for the year ended 31 December 2022 (“**FY2022**”). The largest revenue contributor of the Group was sales of electronic components and semiconductors for the two years ended 31 December 2023 and the six months ended 30 June 2024 (“**1H2024**”). With reference to the 2023 Annual Report, the aforesaid decrease in revenue was mainly due to the decrease in sales of electronic components and semiconductors caused by challenging macroeconomic environment that had lowered consumer demand for mobile phones and other consumer electronic products across the world. Despite the aforesaid decrease in the Group’s revenue, there were slight increases in the Group’s gross profit and profit attributable to owners of the Company for FY2023 as compared to those for FY2022.

We noted from the 2024 Interim Report that the Group’s revenue, gross profit and profit attributable to owners of the Company for 1H2024 increased by approximately 46.92%, approximately 14.82% and approximately 21.72% respectively as compared with those for the six months ended 30 June 2023 (“**1H2023**”).

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## LETTER FROM GRAM CAPITAL

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With reference to the 2024 Interim Report, the Company believes it is in a much better position than before against challenges and has confidence that the Group will maintain competitive in the Greater China region by virtue of its economies of scales, solid long-term customer relations supported by its strong financial strength, localized sales and engineers, competent inventory management and other value added services. By leveraging on its experience, industry expertise and market recognition, the Group is confident to pursue a healthy and sustainable business growth and generate more returns to the Shareholders.

### **Information on Hon Hai Group**

With reference to the Board Letter, Hon Hai is a company listed on the Taiwan Stock Exchange Corporation (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 Conditional Master Agreement will expire on 31 December 2024. As a result, the Company entered into the Conditional Master Agreement which governs the Continuing Connected Transactions during the period between 1 January 2025 and 31 December 2027 (both dates inclusive).

With reference to the Board Letter, a number of 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 aggregated amount of purchases of electronic components made by the Group from the Hon Hai Group had increased slightly from 2022 to 2023. 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 2024 which employing products supplied by the Hon Hai Group. As confirmed by the Directors, the sales to the End-Customers and the Hon Hai Group have been recognized as the Group's revenue.

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## LETTER FROM GRAM CAPITAL

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

With reference to the 2024 Interim Report, the Group keeps focusing on its strategy to provide comprehensive portfolio of design and supply chain services to its target customers in the Greater China region by broadening its world's leading semiconductor supplier base as well as expanding its geographical sales network.

As shown in the section headed "Information on the Group" above, the sales of electronic components and semiconductors was also the largest business segment of the Group for FY2022, FY2023 and 1H2024, accounting for over 99% of the Group's revenue correspondingly.

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 Continuing Connected Transactions

The tables below summarise the major terms of the Continuing Connected Transactions:

<b>Agreement date:</b>	26 September 2024
<b>Parties:</b>	(i) The Company (ii) Hon Hai
<b>Subject matter:</b>	Sales and purchases of electronic components and distribution of brand products under the Hon Hai Group between the Group and the Hon Hai Group
<b>Term:</b>	From 1 January 2025 to 31 December 2027

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

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## LETTER FROM GRAM CAPITAL

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Under the Conditional Master Agreement, the parties agree that the Continuing Connected Transactions shall be on normal commercial terms and, in particular: (a) the members of the Group who are parties to the Continuing Connected Transactions shall receive or pay such consideration for the transactions with members of the Hon Hai Group based on market rates or rates which are no less favourable than those available from or to (as appropriate) independent third parties; (b) the terms of the Continuing Connected Transactions shall be fair and reasonable and negotiated on arm's length basis; (c) for purchases made by the Group from 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; (d) 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 (e) the total amount of the Continuing Connected Transactions shall not exceed the applicable caps or such other caps as approved by the Independent Shareholders from time to time.

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 when entering into, or deciding whether to enter into any sale or purchase transactions, with members of the Hon Hai Group.

### *Price policy for purchases*

With reference to the Board Letter, the current price negotiation mechanism in relation to the purchases of 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 Hon Hai Group with reference to the mark-up rate not below 2% (the "**Minimum Purchase Mark-up Rate**"). 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 (i) between the Group and Hon Hai Group; and (ii) between the Group and other independent third parties. As represented by the Company, a number of the members of Hon Hai Group are the only vendors approved by the End-Customers, 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 this respect, the Company provided us a list of Purchase Transactions for each of FY2022, FY2023 and the seven months ended 31 July 2024. 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 and the End-Customers (comprising one invoice from each side) for each of FY2022, FY2023 and the seven months ended 31 July 2024 and noted from the aforesaid invoices that the gross profit margins were not below 2%. We consider the reviewed invoices to be sufficient from the Independent Financial Adviser's perspective as they were selected on a random basis and covered the historical transaction period (up to the latest available month) under the Previous Conditional Master Agreement.

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## LETTER FROM GRAM CAPITAL

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We noted that the Group's gross profit margin was approximately 5.9% for FY2023, which is higher than the Minimum Purchase Mark-up Rate. In this respect, 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 provided 3 transaction records for FY2022, FY2023 and the seven months ended 31 July 2024 with an independent third party customer which contributed over 10% of the Group's total sales for FY2023. The transactions under the said transaction records generated gross profit margin of less than 1.5% or negative gross margin (the "**Lower GP Margin of I3P**").

Accordingly, despite the lower Minimum Purchase Mark-up Rate as compared to the Group's gross profit margin for FY2023, it makes economic sense to conduct the Purchase Transactions provided that the Group has sufficient capacity and reasonable gross profit margins can be generated therefrom.

### *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% (the "**Minimum Sales Margin**"). Detailed pricing policy for the Sale Transactions is set out under the sub-section headed "Price Policy for Sales" of the Board Letter.

For our due diligence purpose, the Company provided us a list of Sale Transactions for each of FY2022, FY2023 and the seven months ended 31 July 2024. 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 FY2022, FY2023 and the seven months ended 31 July 2024 (i) between the Group and Hon Hai Group; and (ii) between 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 they were selected on a random basis and covered the historical transaction period (up to the latest available month) under the Previous Conditional Master Agreement.

We noted that the Group's gross profit margin was approximately 5.9% for FY2023, which is higher than the Minimum Sales Margin. Having considered the Lower GP Margin of I3P as mentioned above, it makes economic sense to conduct the Sales Transactions (despite the lower Minimum Sales Margin as compared to the Group's gross profit margin for FY2023) provided that the Group has sufficient capacity and reasonable gross profit margins can be generated therefrom.

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## LETTER FROM GRAM CAPITAL

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### *Annual review*

With reference to the 2023 Annual Report, the independent non-executive Directors have reviewed the Continuing Connected Transactions for FY2023 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.

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 FY2023 (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.

### **3. The Caps**

Set out below are (i) the historical amounts of the Continuing Connected Transactions for the two years ended 31 December 2023 and the seven months ended 31 July 2024; (ii) the historical annual caps of the Continuing Connected Transactions for the three years ending 31 December 2024; and (iii) the Caps for the three years ending 31 December 2027:

	<b>For the year ended 31 December 2022</b>	<b>For the year ended 31 December 2023</b>	<b>For the seven months ended 31 July 2024</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Historical amount of the Purchase Transactions	1,502,422	1,790,063	1,235,856
Historical amount of the Sale Transactions	2,764,831	1,514,919	1,031,030

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## LETTER FROM GRAM CAPITAL

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	<b>For the year ended 31 December 2022</b>	<b>For the year ended 31 December 2023</b>	<b>For the year ending 31 December 2024</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Historical annual caps of the Purchase Transactions (the “ <b>Historical Purchase Cap(s)</b> ”)	2,600,000	3,000,000	3,500,000
<i>Utilisation rate</i>	<i>58%</i>	<i>60%</i>	<i>Undetermined yet</i>
Historical annual caps of the Sale Transactions (the “ <b>Historical Sale Cap(s)</b> ”)	3,200,000	3,700,000	4,300,000
<i>Utilisation rate</i>	<i>86%</i>	<i>41%</i>	<i>Undetermined yet</i>
	<b>For the year ending 31 December 2025</b>	<b>For the year ending 31 December 2026</b>	<b>For the year ending 31 December 2027</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Purchase Caps	2,800,000	3,300,000	3,800,000
Sale Caps	2,300,000	2,700,000	3,200,000

### *Analysis on the Purchase Caps*

Detailed basis of determining the Purchase Caps for the three years ending 31 December 2027 is set out under the sub-section headed “BASIS OF THE CAPS – Purchase Caps” of the Board Letter.

From the above tables, we noted that the utilisation rates of the Historical Purchase Caps for FY2022 and FY2023 were approximately 58% and approximately 60% respectively.

To assess the fairness and reasonableness of the Purchase Caps, we obtained the calculation of the Purchase Caps (the “**Purchase Caps Calculation**”) from the Company. The Purchase Caps Calculation was based on the estimated demand from various business units of the Group.

Based on the Purchase Caps Calculation, the estimated amount of the Purchase Transactions is approximately HK\$2,203 million for FY2024, indicating an estimated utilisation rate of approximately 63% of the Historical Purchase Cap for FY2024. Given the above utilisation rates/estimated utilisation rate of the Historical Purchase Caps for the three years ending 31 December 2024, we consider that it is reasonable to set a lower Purchase Cap for FY2025 as compared to the Historical Purchase Cap for FY2024.

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## LETTER FROM GRAM CAPITAL

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Based on the Purchase Caps Calculation, the estimated amount of the Purchase Transactions for FY2025 represents an increase of approximately 14% as compared to that for FY2024. The Purchase Cap for FY2025 was calculated based on such estimated amount of the Purchase Transactions and incorporating a buffer of 10% (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 not uncommon among Hong Kong listed companies. Accordingly, we consider the Buffer to be reasonable.

The Purchase Cap increases by approximately 18% from FY2025 to FY2026 and approximately 15% from FY2026 to FY2027.

We consider the aforesaid year-on-year increase rates ranging from approximately 14% to approximately 18% to be reasonable after taking into account:

- (i) The historical amount of the Purchase Transactions for FY2023 increased by approximately 19% as compared to that for FY2022.
- (ii) The estimated amount of the Purchase Transactions for FY2024 increased by approximately 23% as compared to the historical amount for FY2023.
- (iii) The Group’s revenue for 1H2024 increased by approximately 47% as compared to that for 1H2023, which demonstrates the recent business growth of the Group.
- (iv) The growth factors as set out under the sub-sections headed “SALE AND PURCHASE CAPS – Purchase Caps” and “BASIS OF THE CAPS – Purchase Caps” of the Board Letter.

In light of the above, we consider the Purchase Caps for the three years ending 31 December 2027 to be fair and reasonable.

### *Analysis on the Sale Caps*

Detailed basis of determining the Sale Caps for the three years ending 31 December 2027 is set out under the sub-section headed “BASIS OF THE CAPS – Sale Caps” of the Board Letter.

From the above tables, we noted that the utilisation rates of the Historical Sale Caps for FY2022 and FY2023 were approximately 86% and approximately 41% respectively.

To assess the fairness and reasonableness of the Sale Caps, we obtained the calculation of the Sale Caps (the “**Sale Caps Calculation**”) from the Company. The Sale Caps Calculation was based on the estimated sales from various business units of the Group.

Based on the Sale Caps Calculation, the estimated amount of the Sale Transactions is approximately HK\$1,781 million for FY2024, indicating an estimated utilisation rate of approximately 41% of the Historical Sale Cap for FY2024. Given the above utilisation rates/estimated utilisation rate of the Historical Sale Caps for the three years ending 31 December 2024, we consider that it is reasonable to set a lower Sale Cap for FY2025 as compared to the Historical Sale Cap for FY2024.

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## LETTER FROM GRAM CAPITAL

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Based on the Sale Caps Calculation, the estimated amount of the Sale Transactions for FY2025 represents an increase of approximately 15% as compared to that for FY2024. The Sale Cap for FY2025 was calculated based on such estimated amount of the Sale Transactions and incorporating the Buffer of 10%. As aforementioned, 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 not uncommon among Hong Kong listed companies. Accordingly, we consider the Buffer to be reasonable.

The Sale Cap increases by approximately 17% from FY2025 to FY2026 and approximately 19% from FY2026 to FY2027.

We consider the aforesaid year-on-year increase rates ranging from approximately 15% to approximately 19% to be reasonable after taking into account:

- (i) The estimated amount of the Sale Transactions for FY2024 increases by approximately 18% as compared to the historical amount for FY2023.
- (ii) The Group's revenue for 1H2024 increased by approximately 47% as compared to that for 1H2023, which demonstrates the recent business growth of the Group.
- (iii) The growth factors as set out under the sub-sections headed "SALE AND PURCHASE CAPS – Sale Caps" and "BASIS OF THE CAPS – Sale Caps" of the Board Letter.

In light of the above, we consider the Sale Caps for the three years ending 31 December 2027 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 2027, and they do not represent forecasts of purchase costs/revenue/income to be incurred/generated from the Continuing Connected Transactions. Consequently, we express no opinion as to how closely the actual purchase costs/revenue/income to be incurred/generated 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.

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## LETTER FROM GRAM CAPITAL

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### 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; and (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 resolutions 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 resolutions in this regard.

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

*Note: 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 around 30 years of experience in investment banking industry.*

## 1. RESPONSIBILITY STATEMENT

This 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 this 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 this circular 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
Dr. Yim Yuk Lun,	Beneficial owner	114,800,000	18.34%
Stanley SBS BBS JP	Held by controlled corporation <sup>(Note 1)</sup>	227,542,800	36.36%
		342,342,800	54.70%
Wong Sui Chuen	Beneficial owner	1,824,000	0.29%
Tsui Chi Wing, Eric	Beneficial owner	714,800	0.11%

*Note 1:* These shares are held by Unimicro Limited, a company incorporated in the British Virgin Islands, which is beneficially owned by Dr. Yim Yuk Lun, Stanley SBS BBS JP. Therefore Dr. Yim Yuk Lun, Stanley SBS 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 V & V Technology Holdings Limited (“V&V Technology”)

Name of directors	Capacity	Number of issued ordinary shares held	Percentage of issued share capital of V&V Technology
Dr. Yim Yuk Lun,	Beneficial owner <sup>(Note 2)</sup>	86,245,722	8.91%
Stanley SBS BBS JP	Held by controlled corporation <sup>(Note 2)</sup>	448,846,000	46.31%
		535,091,722	55.22%
Wong Wai Tai	Beneficial owner	5,000,000	0.52%
Tsui Chi Wing, Eric	Beneficial owner	3,233,753	0.33%
Wong Sui Chuen	Beneficial owner	2,531,328	0.26%
Yim Tsz Kit, Jacky	Beneficial owner	300,000	0.03%

*Note 2:* Dr. Yim Yuk Lun, Stanley SBS BBS JP beneficially owns 86,245,722 V&V Technology shares and is the controlling shareholder of the Company; he is therefore under the SFO deemed to be interested in 448,846,000 V&V Technology 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*

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

*Note:* Hon Hai owns 100% interest in Foxconn 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 2023, 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:

<b>Name</b>	<b>Qualification</b>
Gram Capital Limited	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 2023), 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 2023, 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 company secretary of the Company.
- (ii) Gram Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under SFO and the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Caps, the Conditional Master Agreement and the transactions contemplated thereunder.
- (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](http://www.hkexnews.hk)) and the Company ([www.sasdragon.com.hk](http://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 19 November 2024;
- (v) letter from Gram Capital dated 19 November 2024; and
- (vi) the written consent referred to in the paragraph headed “Expert’s Qualification and Consent” in this appendix.

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## NOTICE OF THE SGM

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**GROUP**

# **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 28/F., Noble Centre, No. 1006, 3rd Fuzhong Road, Futian District, Shenzhen, P.R.C. on Thursday, 19 December 2024 at 11:00 a.m. for the purpose of considering and, if thought fit, passing the following resolutions, with or without amendments, as ordinary resolutions of the Company:

### **ORDINARY RESOLUTIONS**

1. “**THAT** the Conditional Master Agreement and the Caps, each as defined and described in the circular of the Company dated 19 November 2024 (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.”
2. “**THAT** 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 Transactions 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).”

On behalf of the Board

**S. A.S. Dragon Holdings Limited**

**Dr. Yim Yuk Lun, Stanley** *SBS BBS JP*

*Chairman and Managing Director*

Hong Kong, 19 November 2024

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## NOTICE OF THE SGM

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*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 is entitled to appoint a proxy to attend and vote instead of him. A proxy need not be a member of the Company. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.
- (3) In order to be valid, the form of proxy must be deposited with the Company's Share Registrars in Hong Kong in Tricor Secretaries Limited at 17/F., Far East Finance Centre, 16 Harcourt Road, Hong Kong together with any power of attorney or other authority, under which it is signed, or a notarially certified copy of that power or authority, not less than 48 hours before the time for holding the meeting.
- (4) 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.
- (5) The register of members of the Company will be closed from 13 December 2024 to 19 December 2024, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the attending and voting at the meeting, all transfers accompanied by the relevant share certificates, must be lodged with the Company's Share Registrars in Hong Kong, Tricor Secretaries Limited at 17/F., Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration no later than 4:30 p.m. on 12 December 2024. The record date for the attending and voting at the meeting is 19 December 2024.
- (6) If Typhoon Signal No. 8 or above, or a "black" rainstorm warning is in effect any time after 8:00 a.m. on the date of the meeting, the meeting will be postponed. The Company will publish an announcement on the website of the Company at [www.sasdragon.com.hk](http://www.sasdragon.com.hk) and on the website of The Stock Exchange of Hong Kong Limited at [www.hkexnews.hk](http://www.hkexnews.hk) to notify its shareholders of the date, time and venue of the rescheduled meeting.