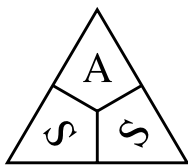


THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt about 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 with the enclosed form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.



S.A.S. DRAGON HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

CONNECTED TRANSACTIONS

Independent Financial Advisers to the Independent Board Committee



MENLO CAPITAL LIMITED



HANTEC CAPITAL LIMITED

A letter from the board of directors of S.A.S. Dragon Holdings Limited is set out on pages 3 to 7 of this circular. A letter from the independent board committee of S.A.S. Dragon Holdings Limited is set out on page 8 of this circular. A letter from Menlo Capital Limited and Hantec Capital Limited, the independent financial advisers, to the independent board committee is set out on pages 9 to 16 of this circular.

A notice convening a special general meeting of S.A.S. Dragon Holdings Limited to be held on 24th December, 2003 at 6th Floor, Tower B, Hunghom Commercial Centre, 37 Ma Tau Wai Road, Hunghom, Kowloon, Hong Kong at 9:00 a.m. is set out on pages 20 to 21 of this circular. Whether or not shareholders are able to attend the special general meeting, they are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the head office and principal office of S.A.S. Dragon Holdings Limited in Hong Kong at 6th Floor, Tower B, Hunghom Commercial Centre, 37 Ma Tau Wai Road, Hunghom, Kowloon, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding the special general meeting. Completion and return of the form of proxy will not preclude shareholders from attending and voting in person at the special general meeting or any adjourned meeting thereof in person, should they so wish.

8th December, 2003

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DEFINITIONS

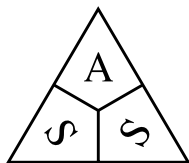
In this circular, unless the context otherwise requires, the following expressions have the following meanings:

“associate(s)”	the meaning ascribed to it in the Listing Rules
“Board”	the board of Directors
“business day”	a day (other than Saturdays) on which banks are generally open in Hong Kong
“Company”	S.A.S. Dragon Holdings Limited, a company incorporated in Bermuda with limited liability, the Shares of which are listed on the Stock Exchange
“Directors”	the directors of the Company
“Existing Waiver”	the waiver granted by the Stock Exchange on 29th November, 2001 and referred to under the paragraph headed “Existing Waiver” in the section headed “Letter from the Board”
“Foxconn”	Foxconn Holding Limited, a wholly-owned subsidiary of Hon Hai, which is a substantial shareholder of the Company
“Group”	the Company and its subsidiaries
“Hantec”	Hantec Capital Limited, being a deemed licensed corporation under the transitional arrangement within the meaning of the SFO to carry out types 1 and 6 regulated activities under the SFO
“Hon Hai”	Hon Hai Precision Industry Co., Ltd., a company incorporated in Taiwan with limited liability and a listed company in Taiwan
“Hon Hai Group”	Hon Hai and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“IFAs”	Menlo and Hantec, being the independent financial advisers to the Independent Board Committee
“Independent Board Committee”	an independent committee of the Board comprising of any two independent non-executive Directors
“Independent Shareholders”	Shareholders other than Foxconn and its associates

DEFINITIONS

“Latest Practicable Date”	4th December, 2003, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Menlo”	Menlo Capital Limited, being a deemed licensed corporation under the transitional arrangement within the meaning of the SFO to carry out type 6 regulated activity under the SFO
“New Waiver”	the new waiver being sought from the Stock Exchange, details of which are set out in the paragraph headed “New Waiver Application” under the section headed “Letter from the Board”
“PRC”	the People’s Republic of China
“SFO”	Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
“SGM”	the special general meeting of the Company to be held on 24th December, 2003 at 6th Floor, Tower B, Hunghom Commercial Centre, 37 Ma Tau Wai Road, Hunghom, Kowloon, Hong Kong at 9:00 a.m., notice of which is set out on pages 20 to 21 of this circular
“Share(s)”	share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder”	has the meaning ascribed to it under the Listing Rules
“Transactions”	the sale and purchase of electronic components by various members of the Group to the Hon Hai Group and vice versa
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong

LETTER FROM THE BOARD



S.A.S. DRAGON HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

Executive Directors

Mr Yim Yuk Lun, Stanley
(Chairman & Managing Director)

Mr Wong Sui Chuen

Non-executive Director

Dr Chang Chu Cheng

Independent Non-executive Directors

Mr Chang Ping Kin

Dr Lui Ming Wah JP

Mr Liu Chun Ning, Wilfred

Mr Wong Tak Yuen, Adrian

Registered office:

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head Office and principal place of business in Hong Kong:

6th Floor, Tower B
Hung Hom Commercial Centre
37 Ma Tau Wai Road
Hung Hom
Kowloon
Hong Kong

8th December, 2003

To the Shareholders

Dear Sir/Madam,

CONNECTED TRANSACTIONS

INTRODUCTION

In an announcement dated 26th November, 2003, the Directors announced that in anticipation of the continuous growth in the Group's sales and purchases between the Hon Hai Group and the Group based on the projections made by the Company, the Company proposes to seek Independent Shareholders authorisation for an increase in the maximum monetary limits set out in the Existing Waiver upon expiry, in the terms set out in the New Waiver in relation to the Transactions. An application has been made by the Company to the Stock Exchange for the New Waiver.

The Group is principally engaged in the distribution of electronic products and sports products in the Greater China Region and has a principal place of business in Hong Kong. The Group commenced the sales and purchases of electronic components with the Hon Hai Group since 1999. Hon Hai is a listed company in Taiwan and is engaged in the electronics business worldwide and has a principal place of business in Taiwan. At such time, Hon Hai was not connected with the director, chief executive or substantial shareholder of the Company or any of its subsidiaries or an associate of any of them. In April 2000, Foxconn, being a wholly-owned subsidiary of Hon Hai,

LETTER FROM THE BOARD

subscribed for preference shares issued by the Company. Foxconn did not become a substantial shareholder of the Company under the Listing Rules until June 2000 when Foxconn converted its preference shares into ordinary shares of the Company and, as a result, it was interested in approximately 19.57% of the issued share capital of the Company. As at the Latest Practicable Date, Foxconn, being interested in approximately 19.99% of the issued share capital of the Company, was a substantial shareholder of the Company and the Transactions constitute connected transactions for the Company under the Listing Rules. In light of the above, the Company obtained the Existing Waiver.

In view of the improvement of market sentiment in the business community, the increase in the business with the Hon Hai Group in the past few years and the rise in the demand for electronic products as a result of the increasing consumption power enjoyed by the public, which in turn led to the increased demands for electronic components, the Directors consider it to be in the interest of the Company to secure the immense opportunities for the Group's business and thus seek the New Waiver to enable the Group to continue to allow its electronic components business to grow, as full compliance with the requirements of disclosure by announcement, disclosure by circular and/or seeking Independent Shareholders approval would be impractical and unduly burdensome in such circumstance.

The Independent Board Committee has been formed to consider the Transactions subject to the New Waiver and to make a recommendation to the Independent Shareholders in relation thereto. The Independent Board Committee comprises of any two independent non-executive Directors.

The IFAs have been appointed as the independent financial advisers to advise the Independent Board Committee in relation to the Transactions and the New Waiver.

EXISTING WAIVER

On 29th November 2001, the Company was granted a waiver by the Stock Exchange from the requirements of disclosure by press notice, circular to shareholders and/or Independent Shareholders' approval as stipulated in Chapter 14 of the Listing Rules for a period of three years in respect of the Transactions provided, among other things, that the aggregate value of those Transactions do not exceed HK\$138,166,000, HK\$296,184,000 and HK\$340,620,000 for each of the three years ending 31st December, 2003. Since Foxconn, a wholly-owned subsidiary of Hon Hai, is a substantial shareholder of the Company, the Transactions constitute connected transactions for the Company under the Listing Rules. Further particulars regarding those Transactions and the conditions on which the Existing Waiver were granted were set out in the announcement of the Company dated 18th October, 2001 and the circular of the Company dated 1st November, 2001.

According to the audited consolidated financial statements of the Group for the two years ended 31st December, 2002, the aggregate value of the Transactions amounted to approximately HK\$121,147,000 and HK\$286,508,000 respectively. According to the unaudited consolidated financial statements of the Group for the six months ended 30th June, 2003, the aggregate value of the Transactions amounted to approximately HK\$124,851,000 and pursuant to the records of the Group the aggregate value of the Transactions during the period from January 2003 to October 2003 amounted to approximately HK\$234,506,000. As at the Latest Practicable Date, the Group had not exceeded any of the monetary limits set out in the Existing Waiver.

LETTER FROM THE BOARD

NEW WAIVER APPLICATION

As the Existing Waiver is due to expire at the end of this year and it is expected that the Transactions will continue in the years to come, the Directors believe that it is in the commercial interest of the Company to seek for the New Waiver in respect with the Transactions. As the Transactions will constitute connected transactions for the Company under the Listing Rules and will normally require disclosure and, possibly, the approval of Independent Shareholders on each occasion as they arise, the Company considers that it would be impractical and unduly burdensome for it to make such disclosure and, if necessary, seek prior Independent Shareholders' approval for each of these Transactions whenever they arise. Accordingly, the Company has applied to the Stock Exchange for the New Waiver from strict compliance with the requirements under Rule 14.26 of the Listing Rules for the Transactions under the following conditions:

- (1) such connected transactions are:
 - (i) in the ordinary and usual course of business of the Group;
 - (ii) on normal commercial terms;
 - (iii) fair and reasonable so far as the Shareholders are concerned; and
 - (iv) entered into either (a) in accordance with the terms of the agreements governing such Transactions or (b) where there is no such agreement, on terms no less favourable than terms available to (or from, as appropriate) independent third parties;
- (2) brief details of such connected transactions in any financial year will be disclosed in the annual report of the Company relating to that year as set out in Rule 14.25(1)(A) to (D) of the Listing Rules;
- (3) the aggregate value of the Transactions will not exceed HK\$362,250,000, HK\$416,588,000 and HK\$479,076,000 for each of the three years ending 31st December, 2006 ("New Cap");
- (4) the independent non-executive Directors shall review annually of such connected transactions and confirm in the next and each successive annual report of the Company that such connected transactions are conducted in the manner stated in (1) above;
- (5) the auditors of the Company will review annually such connected transactions and confirm in writing to the Board that such connected transactions:
 - (i) have received the approval of the Board;
 - (ii) the transactions have been entered into in accordance with the pricing policies of the Company as stated in the Company's financial statements;
 - (iii) are in the ordinary course of business of the Group;

LETTER FROM THE BOARD

- (iv) are on normal commercial terms;
- (v) are fair and reasonable so far as the Shareholders are concerned;
- (vi) have not exceeded the New Cap referred to in paragraph (3) above; and
- (vii) have been entered into either (a) in accordance with the terms of the agreements governing such Transactions or (b) where there is no such agreement, on terms no less favourable than terms available to (or from, as appropriate) independent third parties.

REASONS FOR THE APPLICATION OF THE NEW WAIVER

As mentioned above, the Existing Waiver will expire on 31st December, 2003. The continued growth of business between the Group and the Hon Hai Group has contributed significantly to the Group's results over the past three years and the Directors consider that the Hon Hai Group has become a reliable source of business for the Group.

While, as is typical in the electronic components market where orders are placed from time to time by reference to the manufacturing requirements of the purchaser, Hon Hai Group has not entered into any long term contractual commitment for future business with the Group, the Directors expect that in view of the good long term working relationship which has been established with the Hon Hai Group, the Group's business with the Hon Hai Group will grow strongly. The Directors consider that further strengthening of the Group's business relationship with the Hon Hai Group could further enhance the growth prospects of the Group's electronic components business.

In order to allow the Group to take advantage of such growth opportunities, in the context of the transactions with Hon Hai Group, the Directors now seek the New Waiver, which contains the New Cap at a level higher than the monetary limits set out in the Existing Waiver. When setting the New Cap, the Directors made moderate projections of the Transactions over the next three years based on historical growth of confirmed orders from the Hon Hai Group. In light of the increase of approximately 24.4% in the Group's audited consolidated turnover for the year ended 31st December, 2002 as compared to the previous year and the steady increase in the audited consolidated turnover of the Hon Hai Group, the annual growth rate of 15% of the New Cap is considered by the Directors to be a reasonable buffer for further growth (whether as a result of a better than expected upturn in electronics sector or otherwise) of transactions between the Group and the Hon Hai Group. The estimated value of additional Transactions over the existing cap for 2003 for the next three years represents approximately 7.35%, 25.81% and 47.04% of the unaudited consolidated net tangible assets value of the Group of approximately HK\$294,320,000 as at 30th June, 2003.

LETTER FROM THE BOARD

SGM

The notice of the SGM is set out on pages 20 to 21 of this circular. A form of proxy for use at the SGM is enclosed. Whether or not Shareholders are able to attend the SGM in person, they are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible but in any event not later than 48 hours before the time appointed for the holding of the SGM. Completion and return of the form of proxy will not preclude Shareholders from attending and voting at the SGM or any adjournment thereof in person, if they so wish.

Foxconn and its associates will abstain from voting at the SGM.

RECOMMENDATION

The Independent Board Committee has been set up to advise the Independent Shareholders on the Transactions subject to the New Cap.

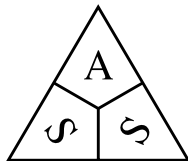
As set out in its letter to the Independent Shareholders, based on the advices of the IFAs, the Independent Board Committee is of the view that the Transactions subject to the New Cap are fair and reasonable so far as the Independent Shareholders are concerned and recommends the Independent Shareholders to vote in favour of the resolution to be proposed to approve the Transactions subject to the New Cap at the SGM.

ADDITIONAL INFORMATION

Your attention is also drawn to the letter from the Independent Board Committee, the letter from the IFAs, the notice of the SGM and the general information set out in the appendix to this circular.

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

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



S.A.S. DRAGON HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

8th December, 2003

To the Independent Shareholders

Dear Sir and Madam,

CONNECTED TRANSACTIONS

We refer to the circular dated 8th December, 2003 of S.A.S. Dragon Holdings Limited (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 to constitute the Independent Board Committee to make a recommendation to the Independent Shareholders in relation to the Transactions subject to the New Cap.

We wish to draw your attention to the letter from the Board, as set out on pages 3 to 7 of the Circular, which provides details of the Transactions. Your attention is also drawn to the letter from the IFAs to the Independent Board Committee which contains their advices in respect of the Transactions and the New Cap, as set out on pages 9 to 16 of the Circular.

Having considered, amongst other things, the principal factors and reasons considered by, and the recommendations of, the IFAs, as stated in their aforementioned letter of advice, the Independent Board Committee concurs with the views of the IFAs that the Transactions subject to the New Cap are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolution to be proposed at the SGM to approve the Transactions subject to the New Cap.

Yours faithfully,
For and on behalf of
Independent Board Committee
Independent Non-executive Directors
Mr Chang Ping Kin
and
Mr Wong Tak Yuen, Adrian

LETTER FROM THE IFAS

The following is the text of a letter of advice to the Independent Board Committee from the IFAs regarding the Transactions and the respective New Cap prepared for the purpose of incorporation in this circular.



MENLO CAPITAL LIMITED

Room 505, Nam Fung Tower
173 Des Voeux Road, Central
Hong Kong



HANTEC CAPITAL LIMITED

45th Floor, COSCO Tower
183 Queen's Road Central
Hong Kong

8th December, 2003

*To the Independent Board Committee of
S.A.S. Dragon Holdings Limited*

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS

We refer to our engagement to advise the Independent Board Committee in relation to the Transactions, details of which are set out in the letter from the Board (the "Letter") contained in the circular of the Company dated 8th December, 2003 (the "Circular") of which this letter forms part. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as defined in the Circular.

As the IFAs to the Independent Board Committee, our role is to give an independent opinion to the Independent Board Committee as to whether the Transactions and the New Cap are fair and reasonable so far as the Independent Shareholders are concerned and the granting of the New Waiver is in the interests of the Company and the Independent Shareholders as a whole.

In formulating our recommendation, we have relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Directors and management of the Company. We have assumed that all information, representations and opinions contained or referred to in the Circular and all information, representations and opinions which have been provided by the Directors and management of the Company for which they are wholly responsible, are true and accurate in all respects at the time they were made and will continue to be true at the date of the Circular. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and we have been confirmed by the Directors that no material facts have been omitted from the information provided and referred to in the Circular.

LETTER FROM THE IFAS

We consider that we have reviewed sufficient information to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information provided by the Directors and management of the Company, nor have we conducted independent investigation into the business and affairs of the Group.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation in respect of the Transactions, we have taken into account the following principal factors and reasons:

1. Nature and background of the Transactions

The Group is principally engaged in the distribution of electronic products and sports products in the Greater China Region and has a principal place of business in Hong Kong. As confirmed by the Directors, the Group has been selling and purchasing electronic components to and from the Hon Hai Group since 1999. Hon Hai is a listed company in Taiwan and is engaged in the electronics business worldwide and has a principal place of business in Taiwan. Details of the background information of the Transactions are set out in the Letter. As Foxconn, which is a wholly owned subsidiary of Hon Hai and a substantial shareholder of the Company, is a connected person of the Company under the Listing Rules, any sale and purchase transactions between the Group and the Hon Hai Group will therefore constitute connected transactions of the Company under Chapter 14 of the Listing Rules, and were subject to the reporting, announcement and Shareholders' approval requirements set out in the Listing Rules. The Company had applied for and obtained the Existing Waiver from the Stock Exchange from strict compliance with the reporting and Shareholders' approval requirements under the Listing Rules in respect of those transactions during the three years ending 31st December, 2003 on the conditions as described in the circular of the Company dated 1st November, 2001.

The Company expects that the sale and purchase transactions with the Hon Hai Group will continue in the future, and accordingly will continue to constitute connected transactions of the Company under the Listing Rules, and, as a result, will be subject to the approval of the Independent Shareholders as required under the Listing Rules. In this regard, the Company has made an application for, subject to the approval by the Independent Shareholders of the Transactions and the New Waiver application at the SGM, a waiver to the Stock Exchange from the strict compliance with the relevant requirements of the Listing Rules in respect of the Transactions for the three years ending 31st December, 2006 on the basis as described in the paragraph headed "New Waiver Application" as contained in the Letter. In view of the expected increase in the Group's business with the Hon Hai Group based on the projections made by the Company, the Company has made an application to the Stock Exchange for an increase in the maximum monetary limits set out in the Existing Waiver upon expiry in the terms set out in the New Waiver and therefore propose to adopt the New Cap imposed under the New Waiver for each of the three financial years ending 31st December, 2006. The approval of the New Waiver application by the Stock Exchange

LETTER FROM THE IFAS

will be subject to, inter alia, certain requirements being fulfilled, which will be materially the same as those granted under the Existing Waiver. Details of which are set out in next paragraph headed “Application for and granting of the New Wavier”.

For the two years ended 31st December, 2002, the Company reported that the consolidated audited turnover of the Group was approximately HK\$1,093.1 million and HK\$1,359.5 million respectively, representing an increase of approximately 24.4%. Whereas, the increase in the consolidated unaudited turnover of the Group for the six months ended 30th June, 2003 as compared to the corresponding period in 2002 was approximately 25.9%.

The following table illustrates the approximate amount of the Transactions and the respective approximate percentage to the total audited/unaudited consolidated turnover/cost of sales of the Group for each of the three financial years ended 31st December, 2002 and the six months ended 30th June, 2003:

	Six months ended 30th June, 2003	Year ended 31st December, 2002	Year ended 31st December, 2001	Year ended 31st December, 2000*
<i>Total sales to the Hon Hai Group</i>				
Approximate amount (HK\$'000)	73,334	163,520	62,414	15,375
Approximate % to consolidated turnover of the Group	9.50%	12.03%	5.71%	1.38%
<i>Total purchases from the Hon Hai Group</i>				
Approximate amount (HK\$'000)	51,517	122,988	58,733	8,317
Approximate % to consolidated cost of sales of the Group	7.14%	9.82%	5.75%	0.82%

* *The Hon Hai Group has become a connected person of the Company since 16th June, 2000, details of which are set out in the paragraph headed “Introduction” as contained in the Letter.*

As advised by the Directors, it is the common practice in the electronic component market that orders are placed from time to time by reference to the manufacturing requirements of purchasers. Regarding the arrangement of the Transactions, we have discussed with the management of the Company and reviewed various relevant invoices in respect of the Transactions. Such references demonstrate that orders from and to the Hon Hai Group are placed from time to time on a case-by-case basis. The Directors expect that the Transactions will continue to be conducted in the same manner as mentioned above for the three years ending 31st December, 2006. In light of the above, we have confirmed with the Directors that the purchases from the Hon Hai Group by the Group and vice versa are made on the basis from the purchase order of the customers. Having considered the business volume for the Transactions for the past three financial years ended 31st December, 2002 and the six months ended 30th June, 2003, the Directors consider that the Hon Hai Group has become a reliable source of business for the Group. Based on the good long term

LETTER FROM THE IFAS

working relationship with the Hon Hai Group, the Directors believe that the business between the Group and the Hon Hai Group will grow strongly. Accordingly, we concur with the Directors' view that further strengthening the Group's business relationship with the Hon Hai Group could further enhance the growth prospects of the Group's electronic component business and we are of the opinion that it is in the best interest of the Group and its Shareholders to continue the present business relationship with the Hon Hai Group in respect of the Transactions.

Given that the Transactions are of a recurring nature and are carried out on a case-by-case basis, it is infeasible for the Group to identify the actual amount of electronic components to be ordered for the Transactions for the three years ending 31st December, 2006. Accordingly, no long term agreements are entered into between the Group and the Hon Hai Group. As confirmed by the Directors, the Transactions have been entered into and conducted in the ordinary and usual course of the business of the Group.

In view of the business nature of the Transactions as described above, we concur with the Directors' view that the Transactions have been entered into and conducted in the ordinary and usual course of the business of the Group and it is impracticable for the Group to enter into any long term contractual commitment with the Hon Hai Group to pre-determine the number of transactions to be conducted during the next three financial years ending 31st December, 2006.

2. Application for and granting of the New Waiver

The Existing Waiver was granted by the Stock Exchange subject to the conditions set out in the circular of the Company dated 1st November, 2001 and will be expired on 31st December, 2003. The Company intends to continue the Transactions with the Hon Hai Group in the years ahead. In view of the transactions between the Group and the Hon Hai Group are expected to be conducted on a regular basis and continue to be entered into in the Group's ordinary and usual course of business, we concur with the Directors' view that it would be impractical and burdensome for the Company to strictly comply with the disclosure and shareholders' approval requirements of Chapter 14 of the Listing Rules on each occasion the Transactions arise and the granting of the New Waiver will allow the Company to execute future sales and purchases with the Hon Hai Group in a more efficient and cost effective way. Accordingly, the Company has applied to the Stock Exchange for a new waiver from strict and full compliance with disclosure and shareholders' approval requirements under Chapter 14 of the Listing Rules for three financial years ending 31st December, 2006 in respect of the Transactions. The granting of the New Waiver is subject to a number of conditions which will be put in place by the Company to safeguard the interests of the Independent Shareholders.

LETTER FROM THE IFAS

The Company made an application for the New Wavier to the Stock Exchange under, among others, the following conditions:

The Transactions shall be:

- (a) in the ordinary and usual course of business of the Group;
- (b) on normal commercial terms;
- (c) fair and reasonable so far as the Shareholders are concerned; and
- (d) entered into either (i) in accordance with the terms of the agreements governing such Transactions or (ii) where there is no such agreement, on terms that are no less favourable than terms available to (or from, as appropriate) independent third parties.

Apart from the above conditions, the granting of the New Waiver will also be subject to other conditions such as (i) disclosure of the details of the Transactions in the Company's annual report pursuant to Rule 14.25(1)(A) to (D) of the Listing Rules; (ii) strict compliance with the New Cap for the three financial years ending 31st December, 2006; and (iii) annual review to be performed respectively by the independent non-executive Directors and the auditors of the Company.

On the basis of the above conditions, we are of the view that there will be sufficient monitoring arrangements in place by the Company to continuously protect the interests of the Independent Shareholders in respect of any of the Transactions and the granting of the New Waiver is in the interests of the Company and the Independent Shareholders as a whole.

LETTER FROM THE IFAS

3. Annual cap for the Transactions

(a) Compliance with the annual cap pursuant to the Existing Waiver

The following table illustrates the approximate amount of the Transactions and the respective approximate percentage to the annual cap pursuant to the Existing Waiver for each of the two financial years ended 31st December, 2002 and the ten months ended 31st October, 2003:

	Total approximate amount of the Transactions <i>HK\$'000</i>	Annual cap pursuant to the Existing Waiver <i>HK\$'000</i>	Approximate utilisation rate %
Ten months ended 31st October, 2003	234,506*	340,620	68.85
Year ended 31st December, 2002	286,508	296,184	96.73
Year ended 31st December, 2001	121,147	138,166	87.68

* *unaudited figures for the period from 1st January, 2003 to 31st October, 2003 only*

As indicated above, pursuant to the audited consolidated financial statements of the Group for the two years ended 31st December, 2002, the aggregate value of the Transactions amounted to approximately HK\$121,147,000 and HK\$286,508,000 respectively, representing approximately 87.68% and 96.73% respectively of the annual cap under the Existing Waiver for the relevant periods. Based on the records of the Group, the aggregate value of the Transactions during the period from 1st January, 2003 to 31st October, 2003 amounted to approximately HK\$234,506,000, representing approximately 68.85% of the annual cap under the Existing Waiver for the year ending 31st December, 2003. Accordingly, the Directors consider that the actual amount of the Transactions during the two years ended 31st December, 2002 and the ten months ended 31st October, 2003 fully reflect that (a) the Company is capable of almost utilising the entire annual cap under the Existing Waiver for each of the relevant periods; and (b) the revenue contribution from the Transactions for the three years ending 31st December, 2006 is expected to be significant.

For the two years ended 31st December, 2002, the Hon Hai Group recorded increases of approximately 57.2% and 67.5% in audited consolidated turnover as compared to the previous corresponding period, whereas the increase in its unaudited turnover was approximately 21.3% for the six months ended 30th June, 2003 as compared to the corresponding period in 2002. Accordingly, the Directors consider that the increase in the Transactions for the two years ended 31st December, 2002 and the six months ended 30th September, 2003 is in line with the significant growth of turnover of the Hon Hai Group respectively for the corresponding period.

LETTER FROM THE IFAS

(b) New Cap

Based on the estimated gross domestic product of 4.0%, 8.2% and 8.5% in Hong Kong, United States of America and the PRC respectively for the third quarter of the year 2003, the Directors are of the view that the general economic growth in such regions has led to a growing appetite for electronic products and hence created an increasing demand for electronic components. The Board therefore expected that the turnover of the Group and the Hon Hai Group respectively will increase in the years ahead, which in turn lead to anticipated increase in the Group's demand for the Hon Hai Group's products and vice versa. To cater for further expansion of the business of the Group and the Hon Hai Group respectively, the Board estimated that the aggregate amount payable to and by the Hon Hai Group for the three years ending 31st December, 2006 will grow in line with the Group's turnover as in the preceding years.

We have confirmed with the Directors that the electronic component industry is of a dynamic nature and electronic component prices behave like any other commodities with wide price swings in times of shortage or oversupply. Besides, the electronic component price cycle may extend over several periods responding to changes in demand. As such, taking into account the price fluctuation of electronic components, the Directors has set in a reasonable buffer for the computation of the New Cap.

On the basis that the total amount of the Transactions from 1st November, 2003 to 15th November, 2003 was approximately HK\$17 million and the outstanding amount of orders from the Hon Hai Group as at 17th November, 2003 was approximately HK\$13 million, the Directors therefore remain positive that the Group is likely to secure approximately HK\$40 million amount of orders for each of November 2003 and December 2003. Based on the aggregate volume of the Transactions for the ten months ended 31st October, 2003 and the first 15 days of November 2003, the Company estimates that the aggregate amount of the Transactions for the year ending 31st December, 2003 will be approximately HK\$315 million. Accordingly, the Company proposes that the new annual cap of the Transactions for the year ending 31st December, 2004 be based on the total estimated amount of the Transactions for the year ending 31st December, 2003 rounded up to the nearest million plus an increment of 15% and the New Cap for the subsequent two years will be based on an increase of 15% on the annual cap amount for the immediately preceding year. Therefore, based on a 15% increment on the estimated aggregate amount of the Transactions for the year ending 31st December, 2003 of approximately HK\$315 million, the Company proposes to adopt the aggregate value of the Transactions to be not more than HK\$362,250,000, HK\$416,588,000 and HK\$479,076,000 for each of the three years ending 31st December, 2006. As a result, the proposed increase is lower than the Group's turnover growth rate of approximately 24.4% and 25.9% for the year ended 31st December, 2002 and the six months ended 30th June, 2003. The annual cap amounts for the two years ending 31st December, 2003 are HK\$296,184,000 and HK\$340,620,000 respectively, representing an increase of approximately 15%. The computation of the New Cap which is based on an annual growth rate of approximately 15% over the amount of that of the preceding year is determined with reference to the growth rate for the year ending 31st December, 2003.

LETTER FROM THE IFAS

Given (i) the substantial increase of approximately 24.4% in the Group's audited consolidated turnover for the year ended 31st December, 2002 as compared to the previous year; (ii) the steady increase in the audited consolidated turnover of the Hon Hai Group for the two years ended 31st December, 2002; (iii) the moderate projections of the Transactions over the next three years based on historical growth of confirmed orders from the Hon Hai Group; (iv) the annual growth rate of 15% of the New Cap is lower than the Group's and the Hon Hai Group's turnover growth rate; and (v) a reasonable buffer has set in for the expected increase in the business between the Group and the Hon Hai Group and the price movement of electronic components, we are of the opinion that the New Cap is fair and reasonable.

RECOMMENDATION

Having taken into consideration the information provided in the Letter, the representations of the Company and its Directors and the above principal factors and reasons, we consider that the proposed New Cap for the Transactions and the conditions of the New Waiver are fair and reasonable so far as the Independent Shareholders are concerned and the granting of the New Waiver to be in the interests of the Company and the Independent Shareholders as a whole.

Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the Transactions.

Yours faithfully,

For and on behalf of
Menlo Capital Limited
Michael Leung
Director

For and on behalf of
Hantec Capital Limited
Kinson Li
Director

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement contained in this circular misleading.

2. DIRECTORS' INTERESTS

- (i) As at the Latest Practicable Date, the interests and short positions of each Director and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which (a) were required 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 the Directors are 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 Companies to be notified to the Company and the Stock Exchange were as follows:

Director	Type of Interest	Number of Shares	Percentage of shareholding in the issued share capital of the Company as at the Latest Practicable Date	Number of share options held
Yim Yuk Lun, Stanley	Personal Interests	5,490,000	28.1%	1,000,000
	Family Interests	59,185,400 (<i>Note</i>)		
Wong Sui Chuen	Personal Interests	2,000	nominal	100,000

Note: These Shares are held by a unit trust whose trustee is Unimicro Limited, a company incorporated in the British Virgin Islands and of which Mr. Yim Yuk Lun, Stanley is also a director. All units in the unit trust are beneficially owned by a discretionary trust established by Mr. Yim Yuk Lun, Stanley, the beneficiaries of which include the spouse and issue of Mr. Yim Yuk Lun, Stanley.

Save as disclosed herein and as at the Latest Practicable Date, none of the Director or chief executive of the Company had any interest in the Shares, underlying Shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which (a) were required 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 the Directors are 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 Companies to be notified to the Company and the Stock Exchange.

(ii) As at the Latest Practicable Date:

- (a) none of the Directors and the IFAs had any direct or indirect interests in any assets which have since 31st December, 2002 (being the date to which the latest published audited accounts of the Group were made up) been acquired or disposed of by or leased to any members of the Group, or are proposed to be acquired or disposed of by or leased to any members of the Group;
- (b) none of the Directors was materially interested in any contracts or arrangements entered into by any members of the Group which is significant in relation to the business of the Group;
- (c) none of the Directors had entered into, or was proposing to enter into, any service contracts with any members of the Group which does not expire or is not determinable by the Group within one year without payment of compensation other than statutory compensation.

(iii) Neither Menlo nor Hantec has any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

3. SUBSTANTIAL SHAREHOLDERS

So far as is known to the Directors or chief executive of the Company and as at the Latest Practicable Date, the following persons, other than a Director or chief executive of the Company, had an interest or short position in the Shares and underlying Shares 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 is, 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 and the amount of each of such person's interest in such securities, together with particulars of any option in respect of such capital:—

Name of shareholder	Type of Interest	Number of ordinary shares beneficially held	Percentage of shareholding in the issued share capital of the Company as at the Latest Practicable Date
Unimicro Limited	Other Interests (<i>note 1</i>)	59,185,400	25.72%
Hon Hai	Corporate Interests (<i>note 2</i>)	46,000,000	19.99%
Foxconn	Beneficial Interests (<i>note 2</i>)	46,000,000	19.99%

Note 1: These Shares are held by a unit trust whose trustee is Unimicro Limited, a company incorporated in the British Virgin Islands and of which Mr. Yim Yuk Lun, Stanley is also a director. All units in the unit trust are beneficially owned by a discretionary trust established by Mr. Yim Yuk Lun, Stanley, the beneficiaries of which include the spouse and issue of Mr. Yim Yuk Lun, Stanley.

Note 2: Hon Hai owns 100% interest in Foxconn and is accordingly deemed to be interested in those Shares beneficially owned by Foxconn.

Save as disclosed herein, the Directors and the chief executive of the Company are not aware of any person, other than a Director or chief executive of the Company, who, as at the Latest Practicable Date, had any interest or short position in the Shares and underlying Shares 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 was interested, directly or indirectly, 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 member of the Group.

4. MATERIAL ADVERSE CHANGE

Save as disclosed herein, the Directors are not aware of any material adverse change in the financial position or trading position of the Group since 31st December 2002, being the date to which the latest published audited consolidated accounts of the Group were made up.

5. QUALIFICATION OF EXPERTS

Menlo, being a deemed licensed corporation under the transitional arrangement within the meaning of the SFO to carry out type 6 regulated activity under the SFO, has given its advice which is contained in this circular.

Hantec, being a deemed licensed corporation under the transitional arrangement within the meaning of the SFO to carry out types 1 and 6 regulated activities under the SFO, has given its advice which is contained in this circular.

6. CONSENT

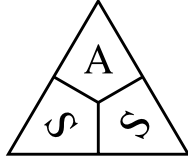
Each of Menlo and Hantec has given and has not withdrawn its consent to the issue of this circular with the inclusion herein of its letter and references to its name in the form and context in which they respectively appear.

7. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the principal place of business of the Company at 6th Floor, Tower B, Hunghom Commercial Centre, 37 Ma Tau Wau Road, Hunghom, Kowloon, Hong Kong up to and including 23rd December, 2003:

- (a) the letter from the IFAs, the text of which is set out on pages 9 to 16 in this circular;
- (b) the written consent from Menlo referred to in paragraph 6 of this appendix; and
- (c) the written consent from Hantec referred to in paragraph 6 of this appendix.

NOTICE OF THE SGM



S.A.S. DRAGON HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

NOTICE IS HEREBY GIVEN that a special general meeting of S.A.S. Dragon Holdings Limited (the “Company”) will be held on 24th December, 2003 at 6th Floor, Tower B, Hunghom Commercial Centre, 37 Ma Tau Wai Road, Hunghom, Kowloon, Hong Kong at 9:00 a.m. for the purpose of considering and, if thought fit, passing the following resolution as ordinary resolution of the Company:

ORDINARY RESOLUTION

“THAT the sale and purchase (“Transactions”) of certain electronic components by S.A.S. Dragon Holdings Limited (the “Company”) and its subsidiaries to and from Hon Hai Precision Industry Co., Ltd. and its subsidiaries and vice versa subject to the New Waiver (as defined the circular of the Company dated 8th December, 2003 of which this notice forms part) be and is hereby approved and that the directors of the Company be and are hereby authorised to do all things and acts and sign all documents which they consider necessary, desirable or expedient in connection with the Transactions.”

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

Hong Kong, 8th December, 2003.

Principal place of business in Hong Kong:

6th Floor, Tower B
Hunghom Commercial Centre
37 Ma Tau Wai Road
Hunghom
Kowloon
Hong Kong

NOTICE OF THE SGM

Notes:

1. Any member entitled to attend and vote at the meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member may appoint a proxy in respect of part only of his holding of shares in the Company. A proxy need not be a member of the Company.
2. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorized in writing or, if the appointor is a corporation, either under its seal or under the hand of an officer, attorney or other person authorized to sign the same. In the case of an instrument of proxy purporting to be signed on behalf of a corporation by an officer thereof it shall be assumed, unless the contrary appears, that such officer was duly authorized to sign such instrument of proxy on behalf of the corporation without further evidence of the fact.
3. The instrument appointing a proxy and (if required by the board of directors of the Company) the power of attorney or other authority (if any) under which it is signed, or a certified copy of such power or authority, shall be delivered to 6th Floor, Tower B, Hunghom Commercial Centre, 37 Ma Tau Wai Road, Hunghom, Kowloon, Hong Kong not less than forty-eight (48) hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote or, in the case of a poll taken subsequently to the date of the meeting or adjourned meeting, not less than twenty-four (24) hours before the time appointed for the taking of the poll and in default the instrument of proxy shall not be treated as valid.
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. Where there are joint holders of any share any one of such joint holder may vote, either in person or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders be present at any meeting the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.
6. A form of proxy for use at the special general meeting is enclosed herewith.