

# DIRECTORS' REPORT

The directors present their annual report and the audited consolidated financial statements of S.A.S. Dragon Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2006.

## PRINCIPAL ACTIVITIES

The Company acts as an investment holding company and the activities of its principal subsidiaries are set out in note 37 to the consolidated financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2006 are set out in the consolidated income statement on page 24.

An interim dividend of HK2.0 cents per share, amounting to HK\$4,851,000, was paid to the shareholders during the year. The directors now recommend the payment of a final dividend of HK5 cents per share to the shareholders on the register of members on 23 May 2007.

## MAJOR CUSTOMERS AND SUPPLIERS

The aggregate purchases attributable to the Group's largest supplier and five largest suppliers taken together accounted for 13.2% and 48.3% respectively of the Group's total purchases for the year.

The aggregate turnover attributable to the Group's largest customer and five largest customers taken together accounted for 14.3% and 32.2% respectively of the Group's total turnover for the year.

Save for Hon Hai Precision Industry Company Limited, a shareholder holding more than 5% of the Company's share capital, was one of the Group's five largest customers, none of the directors, their associates or any shareholders (which to the knowledge of the directors owns more than 5% of the Company's share capital) has any interest in the Group's five largest suppliers and customers.

## INVESTMENT PROPERTIES

At 31 December 2006, the investment properties of the Group were revalued by an independent firm of professional property valuers on an open market value basis at HK\$87,200,000. The revaluation resulted in a surplus of HK\$4,521,000 and is recognised in the consolidated income statement. Details are set out in note 14 to the consolidated financial statements.

Particulars of investment properties of the Group at 31 December 2006 are set out on page 77.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements during the year in the property, plant and equipment of the Group are set out in note 15 to the consolidated financial statements.

## DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at 31 December 2006, calculated in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, represented by the contributed surplus and the accumulated profits of HK\$215,185,000 (2005: HK\$193,340,000) as disclosed in note 36 to the consolidated financial statements.

## DIRECTORS

The directors of the Company during the year and up to the date of this report were:

### Executive Directors

Yim Yuk Lun, Stanley *JP* *Chairman and Managing Director*

Wong Sui Chuen

Lau Ping Cheung (resigned as a non-executive director on 27 February 2006 and appointed as an executive director on 1 January 2007)

### Non-Executive Director

Dr. Chang Chu Cheng

### Independent Non-Executive Directors

Cheung Chi Kwan

Liu Chun Ning, Wilfred

Dr. Lui Ming Wah *SBS JP*

Wong Tak Yuen, Adrian

Chang Ping Kin (resigned on 16 June 2006)

In accordance with Clauses 86(2), 87(1) and 87(2) of the Company's Bye-Laws, Mr. Yim Yuk Lun, Stanley *JP*, Mr. Lau Ping Cheung and Dr. Lui Ming Wah *SBS JP* retire and, being eligible, offer themselves for re-election.

The term of office for all directors is the period up to his retirement by rotation in accordance with the above Bye-Laws.

Mr. Lau Ping Cheung, the executive director of the Company, who appointed for a term of three years commencing from 1 January 2007.

Save as disclosed, no director proposed for re-election at the forthcoming annual general meeting has a 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).

# DIRECTORS' REPORT

## DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 December 2006, the interests of the directors of the Company in the shares and underlying shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Future Ordinance ("SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

### Long positions

Ordinary shares of HK\$0.10 each of the Company

Name of directors	Capacity	Number of issued ordinary shares held	Percentage of issued share capital of the Company
Yim Yuk Lun, Stanley <i>JP</i>	Beneficial owner	8,094,000	3.34%
	Held by controlled corporation (Note)	63,771,400	26.29%
		71,865,400	29.63%
Wong Sui Chuen	Beneficial owner	462,000	0.19%

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

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 31 December 2006.

## SHARE OPTION SCHEME

Particulars of the Company's share option scheme are set out in note 30 to the consolidated financial statements.

No options were outstanding at 31 December 2006 under the share option scheme. No options were granted, exercised, cancelled or lapsed during the year.

## ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than as disclosed under the section "Share option scheme", at no time during the year was the Company or any of its subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the directors or their spouses or children under the age of eighteen had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

## SUBSTANTIAL SHAREHOLDERS

At 31 December 2006, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed above in respect of certain directors, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

### Long positions

*Ordinary shares of HK\$0.10 each of the Company*

Name of shareholders	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Hon Hai Precision Industry Co., Ltd. ("Hon Hai")	Held by controlled corporation ( <i>Note</i> )	46,000,000	18.97%
Foxconn Holding Limited ("Foxconn")	Beneficial owner	46,000,000	18.97%

*Note:* Hon Hai owns 100% interest in Foxconn and is accordingly deemed to be interested in those ordinary shares of the Company beneficially owned by Foxconn.

Save as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company at 31 December 2006.

# DIRECTORS' REPORT

## CONNECTED TRANSACTIONS AND DIRECTORS' INTERESTS IN CONTRACTS

Save for those connected transactions for the year disclosed in note 35 to the consolidated financial statements,

- (i) there were no contracts of significance subsisted at any time during the year to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly; and
- (ii) there were no other transactions which need to be disclosed as connected transactions in accordance with the requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

In accordance with the conditions agreed with the Stock Exchange with respect to the connected transactions, the independent non-executive directors have reviewed the connected transactions set out in note 35 to the consolidated financial statements and, in their opinion, these transactions were entered into by the Group:

- (i) in the ordinary course of business of the Group;
- (ii) on normal commercial terms; and
- (iii) on terms that are fair and reasonable so far as the shareholders of the Company are concerned.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-Laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the board of directors on the basis of their merit, qualifications, competence and job nature.

The emoluments of the directors of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to eligible directors and employees, details of the scheme is set out in note 30 to the consolidated financial statements.



## DIRECTORS' REPORT

### SUFFICIENCY OF PUBLIC FLOAT

According to the information that is publicly available to the Company and within the knowledge of the directors, the Company has maintained a sufficient public float throughout the year ended 31 December 2006.

### DONATIONS

During the year, the Group made charitable and other donations amounting to HK\$817,000.

### POST BALANCE SHEET EVENT

Details of a significant event occurring after the balance sheet date are set out in note 38 to the consolidated financial statements.

### AUDITOR

A resolution will be submitted to the forthcoming annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

**YIM YUK LUN, STANLEY JP**  
*CHAIRMAN AND MANAGING DIRECTOR*  
Hong Kong, 18 April 2007