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FIH Mobile Limited

富智康集團有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 2038)

**CONTINUING CONNECTED TRANSACTIONS
REVISION OF ANNUAL CAPS**

Financial adviser



REORIENT Financial Markets Limited

The Group from time to time has been carrying out the Continuing Connected Transactions consisting of the Purchase Transaction, the Consolidated Services and Sub-contracting Expense Transaction and the Equipment Purchase Transaction with the Hon Hai Group pursuant to the Purchase Agreement, the Consolidated Services and Sub-contracting Expense Agreement and the Framework Equipment Purchase Agreement respectively for a term up to 31 December 2016. The Continuing Connected Transactions constitute continuing connected transactions for the Company and the Company has set the existing annual caps for each of the Continuing Connected Transactions for the three years ending 31 December 2016. It is anticipated that the existing annual caps for each of the Continuing Connected Transactions for the three years ending 31 December 2016 may not be sufficient. The Company has therefore proposed or set (as the case may be) new annual caps for each of the Continuing Connected Transactions for the three years ending 31 December 2016.

Based on the maximum amount of the Proposed Annual Caps, the relevant percentage ratios are more than 5% and the Purchase Transaction constitutes a non-exempt continuing connected transaction for the Company under the Listing Rules and therefore the Purchase Transaction and the Proposed Annual Caps are subject to the approval of the Independent Shareholders.

Based on the respective maximum amounts of the new annual caps for the Consolidated Services and Sub-contracting Expense Transaction and the Equipment Purchase Transaction for the three years ending 31 December 2016, the relevant percentage ratios are less than 5%. In accordance with Rule 14A.76(2) of the Listing Rules, the Consolidated Services and Sub-contracting Expense Transaction, the Equipment Purchase Transaction and their respective new annual caps for the three years ending 31 December 2016 are exempt from the circular (including independent financial advice) and the Independent Shareholders' approval requirements.

The Continuing Connected Transactions are also subject to the annual review requirements under Rules 14A.55 to 14A.59 of the Listing Rules.

The Company will convene an extraordinary general meeting to seek the Independent Shareholders' approval for the Purchase Transaction and the Proposed Annual Caps. The Company has established the Independent Board Committee and has appointed the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard. A circular will be despatched to the Shareholders on or before 7 October 2014.

INTRODUCTION

The Group is a vertically integrated manufacturing service provider for the handset industry worldwide. It provides a wide range of manufacturing services to its customers in connection with the production of handsets.

The Hon Hai Group is the leading global manufacturing service provider in the 3C industries. Hon Hai is the ultimate controlling shareholder of the Company holding approximately 65.38% of the issued share capital of the Company.

The Group from time to time has been carrying out the Continuing Connected Transactions with the Hon Hai Group, each of which is more particularly described below.

PURCHASE TRANSACTION

The Purchase Agreement was entered into by the parties thereto in respect of the Purchase Transaction for a term up to 31 December 2016. The Purchase Transaction constitutes a continuing connected transaction for the Company and the Company has set the existing annual caps for the Purchase Transaction for the three years ending 31 December 2016. Details of the Purchase Transaction (including such existing annual caps) were set out in the Company's announcement dated 17 October 2013 and circular dated 7 November 2013.

Pursuant to the Purchase Agreement, the Group has agreed to purchase materials and components (such as handset displays, batteries, camera modules, keypads and components for handset manufacturing) from the Hon Hai Group for a term up to 31 December 2016 upon and subject to the terms and conditions set out therein at a price determined as follows:

- (a) in respect of purchases from an Approved Vendor, at the price agreed between the supplier and the Group's customer; if not, at a price to be determined by reference to the average market price; or
- (b) where (a) above is not appropriate or applicable, at a price to be agreed between the Group and the Hon Hai Group upon the basis of the principle of "cost plus"; or
- (c) where none of the above pricing bases is appropriate or applicable, at a price to be agreed between the Group and the Hon Hai Group based upon reasonable commercial principles.

Under pricing term (a), in cases where the Group's customer has approved or otherwise designated the Hon Hai Group as an Approved Vendor in respect of the supply of certain materials and components (e.g. a liquid crystal display (LCD) module) to be used in the Group's manufacturing of the final products for the Group's customer, the Group may

purchase such materials and components from the Hon Hai Group at prices agreed between the Group's customer and the Hon Hai Group. In determining whether to purchase such materials and components from the Hon Hai Group at the price agreed between the Group's customer and the Hon Hai Group, the Company would consider whether the cost of the materials and components purchased from the Hon Hai Group has been taken into account in the selling price of the relevant final product to the Group's customer. The Group does not charge the Hon Hai Group any fees under such arrangement. In cases where the Hon Hai Group is not approved or otherwise designated as an Approved Vendor, the price will be determined by reference to the average market price. For the purpose of obtaining market prices, the Group may refer to recent purchase transaction(s) of the Group of the same materials/components from independent suppliers, if available.

Under pricing term (b), cost plus is determined based on the cost of the materials and components purchased from the Hon Hai Group plus a margin as agreed between the Group and the Hon Hai Group and the cost is estimated with reference to the records showing the costing of the materials/components. In determining the margin to be used, the Group will make reference to the margin for comparable materials and components in the market by way of such as referring to margins for the sales of comparable materials and components by the Group or the Hon Hai Group to independent customers. The cost plus pricing may be adopted in cases of a more tailor-made material and component such as molds, where the Hon Hai Group is not an Approved Vendor and market prices are not available. In such case, the Group may purchase the material and component from the Hon Hai Group on a cost plus basis.

Under pricing term (c), the price is determined based on reasonable commercial principles taking into account the costs and return (rather than cost plus an agreed margin) of entering into the Purchase Transaction at such price. In determining the price, the Company would take into account the overall benefits to the Group arising from the Purchase Transaction such as the net income that may be derived from the Group's sales of products which use the materials and components purchased from the Hon Hai Group. The reasonable commercial principle pricing provides a reasonable pricing basis for the Purchase Transaction in the circumstances that all the aforesaid bases (a) and (b) are not applicable or appropriate. The pricing of the Purchase Transaction is primarily based on the pricing that the Hon Hai Group is an Approved Vendor or on market prices.

Before entering into any Purchase Transaction, the Group will check and ensure that the pricing adheres to the pricing terms governing the Purchase Transaction.

Payment for the Purchase Transaction is usually made by the Group within 90 days after the date of the relevant invoice or the Group's accounting record posting date for the transaction.

CONSOLIDATED SERVICES AND SUB-CONTRACTING EXPENSE TRANSACTION

The Consolidated Services and Sub-contracting Expense Agreement was entered into by the parties thereto in respect of the Consolidated Services and Sub-contracting Expense Transaction for a term up to 31 December 2016. The Consolidated Services and Sub-contracting Expense Transaction constitutes a continuing connected transaction for the Company and the Company has set the existing annual caps for the Consolidated Services and Sub-contracting Expense Transaction for the three years ending 31 December 2016. Details of the Consolidated Services and Sub-contracting Expense Transaction (including such existing annual caps) were set out in the Company's announcement dated 17 October 2013.

Pursuant to the Consolidated Services and Sub-contracting Expense Agreement, the Hon Hai Group has agreed to provide services including research and development services, design services, repair services and sub-contracting services to the Group for a term up to 31 December 2016 upon and subject to the terms and conditions set out therein at a price determined as follows:

- (a) where the Hon Hai Group has been approved or otherwise designated by the relevant customers of the Group, at the price agreed between the Hon Hai Group and such customers; if not, at a price to be determined by reference to the average market price; or
- (b) where (a) above is not appropriate or applicable, at a price to be agreed between the Group and the Hon Hai Group upon the basis of the principle of “cost plus”; or
- (c) where none of the above pricing bases is appropriate or applicable, at a price to be agreed between the Group and the Hon Hai Group based on reasonable commercial principles.

Under pricing term (a), in cases where the Group’s customers have approved or otherwise designated the Hon Hai Group to provide certain services in connection with the Group’s manufacturing of the final products for the Group’s customers, the Group may engage the Hon Hai Group to perform these services at prices agreed between the Group’s customers and the Hon Hai Group. In determining whether to engage the Hon Hai Group to perform the required services at the price agreed between the Group’s customer and the Hon Hai Group, the Company would consider whether the cost of the services rendered by the Hon Hai Group has been taken into account in the selling price of the relevant final product to the Group’s customer. The Group does not charge the Hon Hai Group any fees under such arrangement. In cases where the Hon Hai Group is not approved or otherwise designated by the Group’s customers, the price will be determined by reference to the average market price. For the purpose of obtaining market prices, the Group may refer to recent transaction(s) of the Group involving the provision of the same services from independent service providers, if available.

Under pricing term (b), cost plus is determined based on the cost of providing the services by the Hon Hai Group plus a margin as agreed between the Group and the Hon Hai Group and the cost is estimated with reference to the records showing the costing of the services. In determining the margin to be used, the Group will make reference to the margin for comparable services provided in the market by way of such as referring to margins for the provision of comparable services by the Group or the Hon Hai Group to independent third parties. The cost plus pricing may be adopted in cases such as mold repair where the Hon Hai Group is not approved or otherwise designated by the Group’s customers and market prices are not available.

Under pricing term (c), the price is determined based on reasonable commercial principles taking into account the costs and return (rather than cost plus an agreed margin) of entering into the Consolidated Services and Sub-contracting Expense Transaction at such price. In determining the price, the Company would take into account the overall benefits to the Group arising from the Consolidated Services and Sub-contracting Expense Transaction such as the net income that may be derived from the Group’s sales of products which require the services rendered by the Hon Hai Group. The reasonable commercial principle pricing provides a reasonable pricing basis for the Consolidated Services and Sub-contracting Expense Transaction in the circumstances that all the aforesaid bases (a) and (b) are not applicable or

appropriate. The pricing of the Consolidated Services and Sub-contracting Expense Transaction is primarily based on cost plus.

Before entering into any Consolidated Services and Sub-contracting Expense Transaction, the Group will check and ensure that the pricing adheres to the pricing terms governing the Consolidated Services and Sub-contracting Expense Transaction.

Payment for the Consolidated Services and Sub-contracting Expense Transaction is usually made by the Group within 90 days after the date of the relevant invoice or the Group's accounting record posting date for the transaction.

EQUIPMENT PURCHASE TRANSACTION

The Framework Equipment Purchase Agreement was entered into by the parties thereto in respect of the Equipment Purchase Transaction for a term up to 31 December 2016. The Equipment Purchase Transaction constitutes a continuing connected transaction for the Company and the Company has set the existing annual caps for the Equipment Purchase Transaction for the three years ending 31 December 2016. Details of the Equipment Purchase Transaction (including such existing annual caps) were set out in the Company's announcement dated 17 October 2013.

Pursuant to the Framework Equipment Purchase Agreement, the Group has agreed to purchase equipment from the Hon Hai Group from time to time for a term up to 31 December 2016 upon and subject to the terms and conditions set out therein at a price determined as follows:

- (a) at the book value of the relevant equipment as recorded in the accounts of the relevant member of the Hon Hai Group; or
- (b) where (a) above is not appropriate or applicable, at a price to be determined by reference to the average market price; or
- (c) where (a) and (b) above are not appropriate or applicable, at a price to be agreed between the relevant parties on the basis of the principle of "cost plus"; or
- (d) where none of the above pricing bases is appropriate or applicable, at a price to be agreed between the parties based upon reasonable commercial principles.

Pricing term (a) is usually used in the Group's purchase of used equipment from the Hon Hai Group where book value of such equipment is available.

In cases such as purchase of new equipment where pricing term (a) is not appropriate or applicable, the Group will make reference to recent price quotes provided by independent third parties for the same equipment in determining the average market price under pricing term (b).

Under pricing term (c), cost plus is determined based on the cost as recorded in the accounts of the Hon Hai Group plus a margin as agreed between the Group and the Hon Hai Group. In determining the margin to be used, the Group will make reference to the margin for comparable equipment in the market by way of such as referring to margins for the sales of comparable equipment by the Hon Hai Group to independent customers. The cost plus

pricing is usually applied in cases where the relevant equipment is tailor made by the Hon Hai Group where book value and market prices are not available.

Under pricing term (d), the price is determined based on reasonable commercial principles taking into account the costs and return (rather than cost plus an agreed margin) of entering into the Equipment Purchase Transaction at such price. In determining the price, the Company would take into account the overall benefits to the Group arising from the Equipment Purchase Transaction such as the net income that may be derived from the Group's sales of products which require the equipment from the Hon Hai Group. Such pricing term provides a reasonable pricing basis for the Equipment Purchase Transaction in circumstances where all the aforesaid bases (a), (b) and (c) are not applicable or appropriate.

Before entering into any Equipment Purchase Transaction, the Group will check and ensure that the pricing adheres to the pricing terms governing the Equipment Purchase Transaction.

Payment for the Equipment Purchase Transaction is usually made by the Group within 120 days after the date of the relevant invoice.

REASONS FOR THE CONTINUING CONNECTED TRANSACTIONS

The reasons for entering into and carrying out the Continuing Connected Transactions are set out below.

Purchase Transaction

Hon Hai is the leading player in the 3C manufacturing services industry. Under the convergence trend of the 3C industries, an increasing number of types of materials and components manufactured by the Hon Hai Group are used for the manufacture of handsets. The Company believes that it is an important competitive advantage of the Group in the handset manufacturing service industry that the Group together with the members of the Hon Hai Group can provide a range of vertically integrated manufacturing services to the customers.

Consolidated Services and Sub-contracting Expense Transaction

The Company considers that the services provided by the Hon Hai Group under the Consolidated Services and Sub-contracting Expense Transaction as requested by the Group can enhance the Group's handset manufacturing capabilities and related capacity in its handset manufacturing business, provide the Group with greater flexibility in capacity planning and allow the Group to carry on its business more efficiently.

Equipment Purchase Transaction

The Hon Hai Group is able to customise standard industry equipment to varying degrees to better suit the production needs of the Group. Purchasing equipment from the Hon Hai Group helps shorten the lead time to deliver the equipment to the Group. The Group in the past also purchased used equipment that was in good condition from the Hon Hai Group at the book value of the equipment in Hon Hai's accounts. It is also more convenient for the Group to obtain the required maintenance services for the customised equipment from the Hon Hai Group.

HISTORICAL VALUES AND ANNUAL CAPS

With reference to the Company's announcement dated 17 October 2013 and circular dated 7 November 2013, the Company has set the existing annual caps for each of the Continuing Connected Transactions for the three years ending 31 December 2016.

In view of certain new handset manufacturing projects of the Group, it is anticipated that the Group will (i) purchase additional materials and components from the Hon Hai Group under the Purchase Transaction pursuant to the Purchase Agreement at prices agreeable to the Company; (ii) require additional sub-contracting services from the Hon Hai Group under the Consolidated Services and Sub-contracting Expense Agreement at prices agreeable to the Company; and (iii) purchase additional equipment from the Hon Hai Group under the Framework Equipment Purchase Agreement at prices agreeable to the Company. As such, the Company envisages that the existing annual caps for each of the Continuing Connected Transactions may not be sufficient and has therefore proposed or set (as the case may be) the new annual caps for each of the Continuing Connected Transactions for the three years ending 31 December 2016.

The table below sets out (a) the historical actual amounts of each of the Continuing Connected Transactions for the two years ended 31 December 2013 and for the six months ended 30 June 2014; (b) the existing annual caps for each of the Continuing Connected Transactions for the three years ending 31 December 2016; and (c) the proposed or new (as the case may be) annual caps for each of the Continuing Connected Transactions for the three years ending 31 December 2016.

	Actual transaction amounts			Existing annual caps			New/proposed annual caps		
	for the year ended		for the six months	for the year ending			for the year ending		
	31 December 2012	2013	ended 30 June 2014	2014	2015	2016	2014	2015	2016
<i>(in US\$'000)</i>	<i>(audited)</i>	<i>(audited)</i>	<i>(unaudited)</i>						
Purchase Transaction (Note 1)	605,647	300,693	346,000	751,000	804,000	860,000	1,353,000	1,758,000	1,758,000
Consolidated Services and Sub-contracting Expense Transaction (Note 2)	42,125	44,821	30,000	69,000	74,000	79,000	157,000	210,000	210,000
Equipment Purchase Transaction (Note 2)	14,562	40,420	38,100	91,000	98,000	105,000	169,000	182,000	182,000

Notes:

1. Based on the maximum amount of the Proposed Annual Caps, the relevant percentage ratios are more than 5% and the Purchase Transaction constitutes a non-exempt continuing connected transaction for the Company under the Listing Rules. Accordingly, the Purchase Transaction and the Proposed Annual Caps are subject to the approval of the Independent Shareholders.

2. Based on the respective maximum amounts of the new annual caps for the Consolidated Services and Sub-contracting Expense Transaction and the Equipment Purchase Transaction for the three years ending 31 December 2016, the relevant percentage ratios are less than 5%. In accordance with Rule 14A.76(2) of the Listing Rules, the Consolidated Services and Sub-contracting Expense Transaction, the Equipment Purchase Transaction and their respective new annual caps for the three years ending 31 December 2016 are exempt from the circular (including independent financial advice) and the Independent Shareholders' approval requirements.

The proposed or new (as the case may be) annual caps are determined with reference to projections of the Company which in turn are prepared by the Company mainly with reference to the following major factors:

- the actual transaction amounts of the Continuing Connected Transactions for the six months ended 30 June 2014;
- the actual transaction amounts of the Continuing Connected Transactions in 2013;
- the estimated transaction amounts of the Continuing Connected Transactions arising from the Group's new handset manufacturing projects for 2014 taking into account the Group's internal production plans following discussions with and inputs from customers; and
- an additional buffer of 5%.

The Directors (excluding the independent non-executive Directors who will express their view after receiving advice from the Independent Financial Adviser) consider that the Proposed Annual Caps are fair and reasonable, and the terms of the Purchase Transaction are fair and reasonable, on normal commercial terms and in the interests of the Company and its Shareholders as a whole. The Directors (including the independent non-executive Directors) consider that the respective new annual caps for the Consolidated Services and Sub-contracting Expense Transaction and the Equipment Purchase Transaction for the three years ending 31 December 2016 are fair and reasonable, and the respective terms of the Consolidated Services and Sub-contracting Expense Transaction and the Equipment Purchase Transaction are fair and reasonable, on normal commercial terms and in the interests of the Company and its Shareholders as a whole. In view of her relationship with Hon Hai, Dr. Lee Kuo Yu (being a non-executive Director) has abstained from voting on the Board's resolutions in relation to the Continuing Connected Transactions and the relevant proposed or new (as the case may be) annual caps for the three years ending 31 December 2016.

LISTING RULES REQUIREMENTS

Based on the maximum amount of the Proposed Annual Caps, the relevant percentage ratios are more than 5% and the Purchase Transaction constitutes a non-exempt continuing connected transaction for the Company under the Listing Rules and therefore the Purchase Transaction and the Proposed Annual Caps are subject to the approval of the Independent Shareholders.

Based on the respective maximum amounts of the new annual caps for the Consolidated Services and Sub-contracting Expense Transaction and the Equipment Purchase Transaction for the three years ending 31 December 2016, the relevant percentage ratios are less than 5%. In accordance with Rule 14A.76(2) of the Listing Rules, the Consolidated Services and Sub-contracting Expense Transaction, the Equipment Purchase Transaction and their respective new annual caps for the three years ending 31 December 2016 are exempt from the circular

(including independent financial advice) and the Independent Shareholders' approval requirements.

The Company will convene an extraordinary general meeting to seek the Independent Shareholders' approval for the Purchase Transaction and the Proposed Annual Caps. Hon Hai and its associates will abstain from voting on the resolution to be proposed at the extraordinary general meeting for approving the above matters. The Independent Board Committee has been established to consider the Purchase Transaction and the Proposed Annual Caps. The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

A circular will be despatched to the Shareholders on or before 7 October 2014 setting out, among other things, details of the Purchase Transaction, the Proposed Annual Caps and the respective letters from the Independent Board Committee and the Independent Financial Adviser.

The Continuing Connected Transactions are also subject to the annual review requirements under Rules 14A.55 to 14A.59 of the Listing Rules.

DEFINITIONS

“Approved Vendor(s)”	supplier(s) of materials and components for the manufacture of handsets as approved by the customer(s) of the Group
“associate(s)”	having the meaning as defined in the Listing Rules
“Board”	the board of Directors
“Company”	FIH Mobile Limited, a limited liability company incorporated in the Cayman Islands, the shares of which are listed on the Stock Exchange
“Consolidated Services and Sub-contracting Expense Agreement”	the framework consolidated services and sub-contracting agreement entered into among the Company, Hon Hai, PCE Industry Inc. (a subsidiary of Hon Hai) and Sutech Industry Inc. (a wholly-owned subsidiary of the Company) on 24 October 2007 (as amended by the respective supplemental agreements dated 19 November 2010 and 17 October 2013)
“Consolidated Services and Sub-contracting Expense Transaction”	the transactions contemplated under the Consolidated Services and Sub-contracting Expense Agreement
“Continuing Connected Transactions”	collectively, the Purchase Transaction, the Consolidated Services and Sub-contracting Expense Transaction and the Equipment Purchase Transaction
“Directors”	the directors of the Company

“Equipment Purchase Transaction”	purchase of equipment by the Group from the Hon Hai Group contemplated under the Framework Equipment Purchase Agreement
“Framework Equipment Purchase Agreement”	the framework equipment purchase agreement entered into between the Company and Hon Hai on 18 January 2005 (as amended by the respective supplemental agreements dated 12 January 2006, 24 October 2007, 19 November 2010 and 17 October 2013)
“Group”	the Company and/or its subsidiaries (as the case may be)
“Hon Hai”	鴻海精密工業股份有限公司 (Hon Hai Precision Industry Co. Ltd. for identification purposes only), the ultimate controlling shareholder of the Company
“Hon Hai Group”	Hon Hai, its subsidiaries and/or associates (as the case may be)
“Independent Board Committee”	the independent board committee established by the Board to consider the Purchase Transaction and the Proposed Annual Caps
“Independent Financial Adviser”	First Shanghai Capital Limited, a licensed corporation under the SFO to carry out type 6 (advising on corporate finance) regulated activity, which has been appointed by the Company to be the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Purchase Transaction and the Proposed Annual Caps
“Independent Shareholders”	Shareholders other than Hon Hai and its associates
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended and supplemented from time to time
“percentage ratios”	the percentage ratios calculated based on the requirements under Rule 14.07 of the Listing Rules
“Proposed Annual Caps”	the proposed annual caps for the Purchase Transaction for the three years ending 31 December 2016

“Purchase Agreement”	the framework materials and components supply agreement entered into among the Company, Hon Hai, Innolux Corporation (formerly known as Innolux Display Corporation and then Chimei Innolux Corporation) and 鴻準精密工業股份有限公司 (Foxconn Technology Company Limited for identification purposes only) (both associates of Hon Hai) on 19 January 2005 (as amended by the respective supplemental agreements dated 28 February 2006, 24 October 2007, 19 November 2010 and 17 October 2013)
“Purchase Transaction”	purchase of materials and components by the Group from the Hon Hai Group contemplated under the Purchase Agreement
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholders”	the holders of the Shares
“Shares”	the ordinary shares of US\$0.04 each of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	having the meaning ascribed to it under the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)
“US\$”	United States dollars, the lawful currency of the United States of America
“3C”	computer, communication and consumer electronics

By Order of the Board
Tong Wen-hsin
Chairman

Hong Kong, 12 September 2014

As at the date of this announcement, the executive directors of the Company are Messrs. Tong Wen-hsin and Chih Yu Yang and Dr. Lee Jer Sheng, the non-executive director of the Company is Dr. Lee Kuo Yu and the independent non-executive directors of the Company are Messrs. Lau Siu Ki and Chen Fung Ming and Dr. Daniel Joseph Mehan.