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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 TRANSACTION

Financial adviser



云 锋 金 融

REORIENT Financial Markets Limited

The Group from time to time has been carrying out the Lease Income Transaction with the Hon Hai Group, which has been a *de minimis* continuing connected transaction for the Company exempt from the Independent Shareholders' approval, annual review and all disclosure requirements pursuant to Rule 14A.76(1) of the Listing Rules since the latest term of the Lease Income Agreement commencing from 1 January 2017. The Company has envisaged that the cumulative annual amounts of the Lease Income Transaction may reach 0.1% or more of applicable percentage ratios and has therefore set the Annual Caps.

Based on the maximum amount of the Annual Caps, certain applicable percentage ratios are above 0.1% but all relevant percentage ratios are less than 5%. In accordance with Rule 14A.76(2) of the Listing Rules, the Lease Income Transaction together with the Annual Caps for the three years ending 31 December 2019 are exempt from the circular (including independent financial advice) and the Independent Shareholders' approval requirements.

The Lease Income Transaction is subject to the annual review requirements under Rules 14A.55 to 14A.59 of the Listing Rules.

INTRODUCTION

The Group is a vertically integrated manufacturing service provider for the handset industry worldwide. It provides a wide range of manufacturing services, including ancillary logistics and distribution services, to its customers in connection with the production and distribution 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 63.63% of the total number of issued shares of the Company as at the date of this announcement, and hence a connected person of the Company under the Listing Rules.

The Group from time to time has been carrying out the Lease Income Transaction with the Hon Hai Group, which has been a *de minimis* continuing connected transaction for the Company exempt from the Independent Shareholders' approval, annual review and all disclosure requirements pursuant to Rule 14A.76(1) of the Listing Rules since the latest term of the Lease Income Agreement commencing from 1 January 2017. Reference is made to the Company's 2013 annual report and announcement dated 11 August 2016 respectively. The Company has envisaged that the cumulative annual amounts of the Lease Income Transaction may reach 0.1% or more of applicable percentage ratios and has therefore set the Annual Caps.

LEASE INCOME TRANSACTION

Pursuant to the Lease Income Agreement, the Group has agreed to lease to the Hon Hai Group premises owned by the Group as agreed between the parties from time to time for a term up to 31 December 2019 upon and subject to the terms and conditions set out therein.

The rental payable by the Hon Hai Group under the Lease Income Transaction shall be determined on a fair and reasonable basis with reference to the average market rental of other similar local properties in the market. If the average market rental is not available, the rental payable shall be determined on a "cost plus" basis. If both the average market rental basis and the "cost plus" basis are not appropriate or applicable, the rental payable under the Lease Income Transaction shall be agreed between the relevant parties based on reasonable commercial principles. As the locations and the conditions of the properties vary, the Group is not able to fix the rentals but has instead agreed to the pricing policies set out above. The current monthly rentals of the leased premises covered by the Lease Income Transaction have been determined with reference to market rentals as more detailed below.

The rental payable under the Lease Income Agreement will be paid within such period agreed by the parties from time to time. The relevant parties will enter into a specific lease agreement for each of the premises leased by the relevant member company of the Group to the relevant member company of the Hon Hai Group pursuant to the Lease Income Agreement. Under the current specific lease agreements, the rentals are payable by the relevant member company of the Hon Hai Group to the relevant member company of the Group either on a monthly or quarterly basis.

PRICING DETAILS

The rental payable by the Hon Hai Group under the Lease Income Transaction shall be determined on a fair and reasonable basis with reference to the average market rental of other similar local properties in the market. For the purpose of obtaining the average market rental or the market rental (if only one independent transaction is available), the Group refers to (i) at least one recent lease transaction (in general, within three months of the proposed transaction with the Hon Hai Group) of the Group leasing a similar local property to an independent party; (ii) if (i) is not available, at least one quotation from an independent party interested to lease the subject property or at least one similar local property offered for rent in the market; or (iii) if (i) and (ii) are not available, a market rental provided by an independent professional valuer engaged by the Group.

If the average market rental is not available, the rental payable shall be determined on a “cost plus” basis. Cost plus is determined based on the relevant cost of the transaction plus a margin as agreed between the Group and the Hon Hai Group. The cost is calculated based on the Group’s accounting records and includes the depreciation/amortisation costs relating to construction and land use rights, property tax, capital cost and other direct costs attributable to the subject property. In determining the margin, the Group refers to the margin for the Group’s lease to an independent party of the property similar to the subject property proposed to be leased to the Hon Hai Group. In general, the Company will select one independent transaction (most related to the subject property in nature) within three months of the proposed lease transaction with the Hon Hai Group to determine the market margin. Although none of the current rentals under the Lease Income Transaction are determined based on the “cost plus” basis, this pricing policy remains to be relevant to cater to such circumstances in the future.

If both the average market rental basis and the “cost plus” basis are not appropriate or applicable, the rental payable under the Lease Income Transaction shall be agreed between the relevant parties based on reasonable commercial principles. In respect of any unutilised properties, with an aim to improving asset optimisation, the Group may lease such properties to the Hon Hai Group at a rental lower than market rentals and/or lower than a rental based on cost-plus only if the Group is not able to lease such properties to independent parties at higher rentals. The Company will attempt to solicit interests from independent parties to rent the properties and will ensure that the rentals offered to the Hon Hai Group will not be lower than any rentals offered by interested independent parties. The operation departments of the Group carry out the asset utilisation and optimisation management and would solicit interests from potential tenants including the Hon Hai Group. The accounting departments of the Group will review any proposed rentals of properties under this pricing policy. None of the current rentals under the Lease Income Transaction are based on this pricing policy, but it remains to be relevant to cater to such circumstances in the future.

REASONS FOR THE LEASE INCOME TRANSACTION

The Group has built its own manufacturing and other premises and may have surplus space from time to time. The Company considers it in its best interests to lease out such surplus space and generate additional income for the Group at prices comparable to the market and/or above the costs attributable to the leased premises pursuant to the relevant agreement in respect of the Lease Income Transaction.

HISTORICAL VALUES AND ANNUAL CAPS

The table below sets out the historical actual amounts of the Lease Income Transaction for the year ended 31 December 2016 and for the nine months ended 30 September 2017 and the Annual Caps.

	Actual transaction amounts		Annual cap		
	for the year ended 31 December 2016	for the nine months ended 30 September 2017	for the year ending 31 December		
			2017	2018	2019
<i>(in US\$'000)</i>	<i>(audited)</i>	<i>(unaudited)</i>			
<i>Lease Income Transaction</i>	2,090	2,246	3,800	4,999	6,576

The 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:

- total of the actual amounts of the Lease Income Transaction for the nine months ended 30 September 2017;
- the projected amount of the Lease Income Transaction for the three months ending 31 December 2017 based on the current specific lease agreements relating to the Lease Income Transaction and the Group's surplus space which may be available to be leased to the Hon Hai Group;
- the average annual growth rate of the Lease Income Transaction during 2014-2016; and
- an additional buffer of 5%, to cater for any increase in the transaction which is unexpected but not substantial.

The Directors (including the independent non-executive Directors) consider that the Annual Caps are fair and reasonable, the entering into of the Lease Income Transaction is in the Group's ordinary and usual course of business, and the terms of the Lease Income 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 their relationship with Hon Hai, Mr. WANG Chien Ho and Mr. HUANG Chin Hsien (both being executive Directors) have abstained from voting on the Board resolutions in relation to the Lease Income Transaction and the Annual Caps.

INTERNAL CONTROL

The Group has adopted the following internal control procedures over the continuing connected transactions of the Company including the Lease Income Transaction:

- Before entering into a transaction under the continuing connected transactions of the Company, the purchase departments and/or the operation departments (as the case may be) of the Group will review and check whether the pricing is fair and reasonable adhering to the pricing terms and details. In addition to reviewing the pricing before entering into a transaction under the continuing connected transactions of the Company where the pricing terms under the relevant agreements are applied for the first time or the pricing terms are different from those used previously, the accounting departments of the relevant member companies of the Group will review the aforesaid works carried out by the purchase departments and/or the operation departments (as the case may be) on a quarterly basis.
- The accounting department of the Company is primarily responsible to review and monitor the continuing connected transactions ensuring that the annual caps of the relevant continuing connected transactions are not exceeded and the continuing connected transactions have been conducted in accordance with the pricing policies or mechanisms under the framework agreements relating to such continuing connected transactions. The accounting department of the Company will consult with the Group's internal audit function in respect of continuing connected transaction compliance issues and annually report to the chief financial officer of the Company, who (in his own capacity and on behalf of the Group's management designated for the purposes of the Group's enterprise risk management and internal controls) will report to the audit committee of the Company and also provide a confirmation to the audit committee that the continuing connected

transactions of the Company which are subject to the annual review and disclosure requirements under the Listing Rules have been entered into (a) in the ordinary and usual course of business of the Group; (b) on normal commercial terms or better; and (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole; and that the Group's internal control procedures applicable to continuing connected transactions are adequate and effective to ensure that such transactions were so conducted. The audit committee will consider this accordingly.

- The Company's external auditors will review the continuing connected transactions (which are subject to the annual review and disclosure requirements under the Listing Rules) annually to check and confirm (among others) whether the pricing terms have been adhered to and whether the relevant caps have been exceeded.
- The independent non-executive Directors will review the continuing connected transactions of the Company (which are subject to the annual review and disclosure requirements under the Listing Rules) annually to check and confirm whether such continuing connected transactions are conducted in the ordinary and usual course of business of the Group, on normal commercial terms or better, in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole, and whether the internal control procedures put in place by the Company are adequate and effective to ensure that such continuing connected transactions were conducted in accordance with the pricing policies set out in such relevant agreements.

LISTING RULES REQUIREMENTS

Based on the maximum amount of the Annual Caps, certain applicable percentage ratios are above 0.1% but all relevant percentage ratios are less than 5%. In accordance with Rule 14A.76(2) of the Listing Rules, the Lease Income Transaction together with the Annual Caps are exempt from the circular (including independent financial advice) and the Independent Shareholders' approval requirements.

The Lease Income Transaction is subject to the annual review requirements under Rules 14A.55 to 14A.59 of the Listing Rules.

DEFINITIONS

“Annual Caps”	the annual caps for the Lease Income Transaction for the three years ending 31 December 2019
“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

“Director(s)”	the director(s) of the Company
“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 Shareholders”	Shareholders other than Hon Hai and its associates
“Lease Income Agreement”	the framework lease agreement entered into between the Company and Hon Hai on 24 October 2007 (as amended by the respective supplemental agreements dated 19 November 2010, 17 October 2013 and 11 August 2016)
“Lease Income Transaction”	the lease of premises by the Group to the Hon Hai Group contemplated under the Lease Income Agreement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended and/or supplemented from time to time
“percentage ratios”	the percentage ratios calculated based on the requirements under Rule 14.07 of the Listing Rules
“Shareholders”	the holders of the Shares
“Share(s)”	the ordinary share(s) 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
CHIH Yu Yang
Acting Chairman

Hong Kong, 1 November 2017

As at the date of this announcement, the Board of the Company comprises three executive directors, namely Mr. CHIH Yu Yang, Mr. WANG Chien Ho and Mr. HUANG Chin Hsien; one non-executive director, namely Dr. LUO Zhongsheng; and three independent non-executive directors, namely Mr. LAU Siu Ki, Dr. Daniel Joseph MEHAN and Mr. TAO Yun Chih.