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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
ANNUAL CAPS REVISION**

Financial adviser



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REORIENT Financial Markets Limited

The Group from time to time has been carrying out the Product Sales Transaction with the Hon Hai Group pursuant to the Framework Product Sales Agreement for a term up to 31 December 2019. The Product Sales Transaction constitutes a non-exempt continuing connected transaction for the Company under the Listing Rules, and the Company has set the existing annual caps for the Product Sales Transaction for the three years ending 31 December 2019. It is anticipated that the existing annual caps for the Product Sales Transaction for the three years ending 31 December 2019 may not be sufficient. The Company has therefore proposed the Proposed Annual Caps in place of such existing annual caps.

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

The Product Sales Transaction is 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 Product Sales Transaction and the Proposed Annual Caps. The Company has established the Independent Board Committee to advise the Independent Shareholders in respect thereof, 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 8 May 2017.

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 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 Product Sales Transaction with the Hon Hai Group, which is more particularly described below. Reference is made to the announcements of the Company dated 11 August 2016 and 21 September 2016 as well as the circular of the Company dated 1 September 2016 in relation to, among other things, the Product Sales Transaction and the existing annual caps for the Product Sales Transaction for the three years ending 31 December 2019.

PRODUCT SALES TRANSACTION

Pursuant to the Framework Product Sales Agreement, the Group has agreed to sell or procure its subsidiaries to sell to the Hon Hai Group parts or other products manufactured or owned by the Group for a term up to 31 December 2019 upon and subject to the terms and conditions set out therein at a price determined as follows:

- (1) where the Group has been approved or otherwise designated by the relevant customers of the Hon Hai Group, at the price agreed between the Group and such customers; if not, at a price to be determined by reference to the average market price; or
- (2) where (1) 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
- (3) 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 the Product Sales Transaction, the Group sells to the Hon Hai Group parts and other products manufactured or owned by the Group including handset products, handset parts, moulds used in handset manufacturing, and other consumer electronic products. Due to changes in the specifications of the handset products and technological changes, the specifications of the products under the Product Sales Transaction will change from time to time as they need to be tailored for the specific product being manufactured and having regard to the changing market conditions (which may affect the prices of parts and other products), the Group is not able to fix the prices of the products under the Product Sales Transaction but has instead agreed to the pricing terms set out above.

Payment for the Product Sales Transaction is usually received by the Group within 90 days after the date of the relevant invoice.

PRICING DETAILS

With regard to the pricing term numbered (1) above where the Group is approved or otherwise designated by the customers of the Hon Hai Group (which are independent of the Hon Hai Group and the Group) to supply parts or other products to the Hon Hai Group, the products are sold at prices agreed between the Group and the Hon Hai Group's customers (without the Hon Hai Group's direct involvement).

In cases under the pricing term numbered (1) above where the Group is not approved or otherwise designated by the customers of the Hon Hai Group or where the customers of the Hon Hai Group are not independent of the Hon Hai Group and the Group, a price is to be determined by reference to the average market price. These products comprise handset products and parts and other products sourced from independent vendors in the market; in general, the Group will select at least one purchase transaction of the Group of the same product from an independent vendor within three months of the proposed transaction with the Hon Hai Group in order to determine the average market price or the market price (if there is only one independent transaction available).

As to the pricing term numbered (2) above, cost plus is determined based on the cost of the products sold to the Hon Hai Group plus a margin as agreed between the Group and the Hon Hai Group. These products comprise handset products and parts, moulds used in handset manufacturing and other products which are all to be tailor made by the Group according to the Hon Hai Group's unique specifications. Under the cost plus pricing, the cost is based on the Group's accounting records. In determining the margin, the Group takes into account the margin for products of similar nature in the market by way of referring to margins for the Group's sales of products of similar nature to independent customers. In general, the Company will select one independent transaction (most related to the subject product in nature) within three months of the proposed transaction with the Hon Hai Group to determine the market margin.

As to the pricing term numbered (3) above, in consideration of its inventory optimisation management, the Group may agree to prices lower than the costs or prices/margins under the Group's recent independent transactions. In such cases, the Company would only accept such lower prices if the products could not be sold at higher prices to other independent customers and the Company does not consider it to be in its interests to keep such inventory having regard to factors such as inventory obsolescence. The Company will attempt to solicit purchases from independent parties and will ensure that the price of the products sold to the Hon Hai Group will not be lower than any prices offered by interested independent buyers. The operation departments of the Group carry out the inventory optimisation management and would solicit purchases from buyers including the Hon Hai Group. The accounting departments of the Group will review any proposed sales of products by the operation departments under this pricing policy. This pricing term has not been applied since 2015 but remains to be relevant to cater to such circumstances in the future.

REASONS FOR THE PRODUCT SALES TRANSACTION

The Company considers it in its best interests to generate more income as well as enhance utilisation of its assets by carrying out the Product Sales Transaction in response to the Hon Hai Group's needs from time to time, provided that the Hon Hai Group purchases from the Group at prices comparable to market prices and/or which are considered to be fair and reasonable to the Company.

HISTORICAL VALUES AND ANNUAL CAPS

With reference to the Company's announcements dated 11 August 2016 and 21 September 2016 and circular dated 1 September 2016, the Company has set the existing annual caps for the Product Sales Transaction for the three years ending 31 December 2019.

Anticipating additional projects to manufacture and sell products to the Hon Hai Group under the Product Sales Transaction, the Company envisages that the existing annual caps for the Product Sales Transaction may not be sufficient and has therefore proposed the Proposed Annual Caps in place of such existing annual caps.

The table below sets out (a) the historical actual amounts of the Product Sales Transaction for the two years ended 31 December 2016; (b) the existing annual caps for the Product Sales Transaction for the three years ending 31 December 2019; and (c) the Proposed Annual Caps.

	Actual transaction amounts for the year ended 31 December		Existing annual caps for the year ending 31 December			Proposed annual caps for the year ending 31 December		
	2015	2016	2017	2018	2019	2017	2018	2019
	(in US\$ '000) (audited)	(audited)						
Product Sales Transaction	480,702	868,939	951,000	1,018,000	1,089,000	2,147,000	2,357,000	2,588,000

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

The Proposed 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 latest available actual amounts of the transactions under the Product Sales Transaction during the period from 1 January 2017 to 31 March 2017 (both dates inclusive);
- the historical growth and budgets of the Product Sales Transaction;
- the Group's historical turnover; 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 Product Sales 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 his relationship with Hon Hai, Mr. WANG Chien Ho (being an executive Director) has abstained from voting on the Board resolutions in relation to the Product Sales Transaction and the Proposed Annual Caps.

INTERNAL CONTROL

The Group has adopted the following internal control procedures over the continuing connected transactions of the Company including the Product Sales 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

Pursuant to Rule 14A.54 of the Listing Rules, the Company should re-comply with the applicable requirements under Chapter 14A of the Listing Rules before the existing annual caps for the Product Sales Transaction for the three years ending 31 December 2019 are exceeded.

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

The Company will convene an extraordinary general meeting to seek the Independent Shareholders' approval for the Product Sales 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 Product Sales Transaction and the Proposed Annual Caps and to advise the Independent Shareholders in respect thereof. 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 8 May 2017 setting out, among other things, details of the Product Sales Transaction, the Proposed Annual Caps and the respective letters from the Independent Board Committee and the Independent Financial Adviser.

The Product Sales Transaction is also subject to the annual review requirements under Rules 14A.55 to 14A.59 of the Listing Rules.

DEFINITIONS

“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

“Framework Product Sales Agreement”	the framework product sales agreement entered into among the Company, Hon Hai and Innolux Corporation (an associate of Hon Hai formerly known as Innolux Display Corporation and then Chimei Innolux Corporation) on 18 January 2005 (as amended by the respective supplemental agreements dated 28 February 2006, 24 October 2007, 19 November 2010, 17 October 2013 and 11 August 2016)
“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 Product Sales Transaction and the Proposed Annual Caps and to advise the Independent Shareholders in respect thereof
“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 Product Sales 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/or supplemented from time to time
“percentage ratios”	the percentage ratios calculated based on the requirements under Rule 14.07 of the Listing Rules
“Product Sales Transaction”	sale of parts or other products manufactured or owned by the Group to the Hon Hai Group as contemplated under the Framework Product Sales Agreement
“Proposed Annual Caps”	the proposed annual caps for the Product Sales Transaction for the three years ending 31 December 2019
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“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, 13 April 2017

As at the date of this announcement, the executive directors of the Company are Mr. CHIH Yu Yang, Mr. WANG Chien Ho, Mr. HUANG Chin-Hsien and Dr. LUO Zhongsheng and the independent non-executive directors of the Company are Mr. LAU Siu Ki, Mr. CHEN Fung Ming, Mr. TAO Yun Chih and Dr. Daniel Joseph MEHAN.