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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 Purchase Transaction with the Hon Hai Group pursuant to the Purchase Agreement for a term up to 31 December 2019. The Purchase 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 Purchase Transaction for the three years ending 31 December 2019. It is anticipated that the existing annual caps for the Purchase 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 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.

The Purchase 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 Purchase 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 1 September 2017.

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 Purchase 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 Purchase Transaction and the existing annual caps for the Purchase Transaction for the three years ending 31 December 2019.

PURCHASE TRANSACTION

Pursuant to the Purchase Agreement, the Group has agreed to purchase materials and components from the Hon Hai 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) 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
- (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 Purchase Transaction, the Group purchases from the Hon Hai Group materials and components used mainly in handset manufacturing including camera modules, LCD modules, moulds used in handset manufacturing and other handset components. Due to changes in product specifications and technological changes, the specifications of such materials and components 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 materials and components), the Group is not able to fix the prices of such materials and components sourced from the Hon Hai Group but has instead agreed to the pricing terms set out above.

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.

PRICING DETAILS

With regard to the pricing term numbered (1) above where the Group's customer (which is independent of the Hon Hai Group and the Group) approves or otherwise designates the Hon Hai Group as an Approved Vendor in respect of the supply of certain materials and components to be used in the Group's manufacturing of the final products for the Group's customer and the Group purchases such materials and components from the Hon Hai Group, such materials and components are purchased at prices agreed between the Group's customer and the Hon Hai Group (without the Group's direct involvement). In respect of the materials/components designated to be purchased from the Hon Hai Group, the Group is not allowed to source them from other suppliers. The Group will agree 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 if the Company considers that it is profitable to do so, taking into account factors including the selling price of the relevant final product to the Group's customer as agreed between the Group and its customer (without the Hon Hai Group's involvement) and the relative cost of manufacturing such product, including the cost of materials and components purchased from the Hon Hai Group. Given that such pricing mechanism is in line with market practice and the Group will only agree to purchase such material/component from the Hon Hai Group if it is profitable to do so, the Company considers that such pricing basis is on normal commercial terms or better.

In cases under the pricing term numbered (1) above where the Hon Hai Group is not approved or otherwise designated as an Approved Vendor or where the customers of the Group are not independent of the Hon Hai Group and the Group, the price will be determined by reference to the average market price or the market price (if there is only one independent transaction available). These materials/components mainly include LCD modules, camera modules and processors with specifications which are common and/or readily available in the market. For the purpose of obtaining market prices, the Group refers to recent purchase transaction(s) of the Group of the same materials/components from independent suppliers or quotations from independent suppliers, if available. In general, the Company will select at least one independent transaction or (if independent transactions are not available) three quotations from independent suppliers 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 Group plus a margin as agreed between the Group and the Hon Hai Group. These materials/components mainly include handset cases, LCD modules and camera modules which are tailor-made by the Hon Hai Group according to the Group's or its customers' unique specifications. 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 sales of products of similar nature by the Group or the Hon Hai Group to independent customers. In general, the Company will select one independent transaction (most related to the subject material/component in nature) within three months of the proposed transaction with the Hon Hai Group to determine the market margin. Under the cost-plus pricing, the cost is based on the Hon Hai Group's accounting records which are prepared based on International Financial Reporting Standards. The Group's operation departments will assess the reasonableness of such cost taking into account the cost structure including the materials and manufacturing process involved. The Group's accounting departments will check whether the cost is in accordance with the Hon Hai Group's accounting records.

As to the pricing term numbered (3) above, in consideration of its inventory optimisation management, the Hon Hai Group may agree to prices lower than costs and market prices. In such cases, the Company would make the purchases at such lower prices as agreed by the Hon Hai Group. The Company shall review and ensure such prices are lower than costs and market prices. 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 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 consumer electronic products, in particular handsets. The Company believes that it is an important competitive advantage of the Group that the Group together with the members of the Hon Hai Group can provide a wide range of vertically integrated manufacturing services to the customers.

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 Purchase Transaction for the three years ending 31 December 2019.

Anticipating additional projects to manufacture and sell products that may require materials and components from the Hon Hai Group under the Purchase Transaction, the Company envisages that the existing annual caps for the Purchase 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 Purchase Transaction for the year ended 31 December 2016 and for the six months ended 30 June 2017; (b) the existing annual caps for the Purchase Transaction for the three years ending 31 December 2019; and (c) the Proposed Annual Caps.

	Actual transaction amounts		Existing annual caps			Proposed annual caps		
	for the year ended 31 December 2016	for the six months ended 30 June 2017	for the year ending 31 December			for the year ending 31 December		
(in US\$'000)	(audited)	(unaudited)	2017	2018	2019	2017	2018	2019
<i>Purchase Transaction</i>	1,141,540	564,922	977,000	1,045,000	1,118,000	2,260,000	2,482,000	2,725,000

Note: 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.

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 Purchase Transaction during the period from 1 January 2017 to 30 June 2017 (both dates inclusive), where according to the Group's management accounts, certain transactions under the Purchase

Transaction relating to the Group's three product lines which began in 2016 and 2017 recorded amounts of up to approximately US\$56.9 million per month, US\$18 million per month and US\$47.6 million per month respectively during the aforesaid period;

- the historical amounts and budgets of the Purchase Transaction, where the remaining transactions under the Purchase Transaction (other than those relating to the aforesaid three product lines) amounted to approximately US\$1,035.3 million for the year ended 31 December 2016;
- the Group's historical turnover during 2013-2016; and
- an additional buffer of 5%, to cater for any increase in the transaction which is unexpected but not substantial.

The Directors (excluding the independent non-executive Directors who will express their view after receiving full 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. 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 Purchase 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 Purchase 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 Purchase 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 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.

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 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 1 September 2017 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 Purchase Transaction is 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 and other consumer electronic products 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
“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 Board Committee”	the independent board committee established by the Board to consider the Purchase 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 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/or 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 2019

“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, 17 October 2013 and 11 August 2016, and further amended by the Supplemental Purchase Agreement)
“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
“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)
“Supplemental Purchase Agreement”	the supplemental agreement dated 31 July 2017 entered into between the Company and Hon Hai, effective 1 July 2013, to expand the scope of materials and components contemplated thereby for the purposes of the Company’s businesses from time to time
“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, 11 August 2017

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