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If you have sold or transferred all your shares in **FIH Mobile Limited**, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the licensed bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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FIH[®] **富智康**[™]

FIH Mobile Limited

富智康集團有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 2038)

**NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS —
EGM SUPPLEMENTAL AGREEMENTS
PROPOSED ANNUAL CAPS
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

Financial Adviser



**Independent financial adviser to the Independent Board Committee and
the Independent Shareholders**



A letter from the board of directors of FIH Mobile Limited is set out on pages 9 to 37 of this circular. A letter from the Independent Board Committee (as defined herein), containing its advice to the Independent Shareholders (as defined herein), is set out on page 38 of this circular. A letter from Red Sun Capital Limited, the independent financial adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 39 to 65 of this circular.

A notice for convening the extraordinary general meeting of the Company to be held at Kowloon Room I, Mezzanine Level, Kowloon Shangri-La Hotel, 64 Mody Road, Tsimshatsui East, Hong Kong on Friday, 6 December 2019 at 10:00 a.m. is set out on pages 70 to 76 of this circular.

A form of proxy for use at the extraordinary general meeting is enclosed. Whether or not you are able to attend the extraordinary general meeting in person, please complete the accompanying form of proxy in accordance with the instructions contained therein and return the same to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event not less than 48 hours before the time scheduled for holding of the extraordinary general meeting or any adjournment thereof. Completion and delivery of the form of proxy will not preclude you from attending and voting in person at the extraordinary general meeting should you so wish.

Hong Kong, 14 November 2019

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DEFINITIONS

In this circular, the following terms shall have the meanings stated below unless the context requires otherwise:

“Announcement”	the announcement of the Company dated 9 October 2019 regarding, among other things, the Non-exempt Continuing Connected Transactions, the Proposed Annual Caps and the EGM Supplemental Agreements
“Approved Vendor(s)”	supplier(s) of materials, components and other products that may be used in the businesses of the Group from time to time 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
“connected person(s)”	having the meaning as defined in the Listing Rules
“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 former subsidiary of Hon Hai which had been dissolved) and Sutech Industry Inc. (a wholly-owned subsidiary of the Company) on 24 October 2007, pursuant to which (among other things) all the respective rights, obligations and liabilities of PCE Industry Inc. and Sutech Industry Inc. thereunder were assumed and taken up by Hon Hai and the Company respectively (as amended by the respective supplemental agreements between the Company and Hon Hai dated 19 November 2010, 17 October 2013 and 11 August 2016)
“Consolidated Services and Sub-contracting Expense Transaction”	the transactions contemplated under the Consolidated Services and Sub-contracting Expense Agreement which will (subject to obtaining the Independent Shareholders’ approval) be amended by the Supplemental Consolidated Services and Sub-contracting Expense Agreement
“continuing connected transaction(s)”	having the meaning as defined in the Listing Rules
“Continuing Connected Transactions”	collectively, the Non-exempt Continuing Connected Transactions and the Other Transactions
“controlling shareholder”	having the meaning as defined in the Listing Rules
“Directors”	the directors of the Company

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“EGM”	the extraordinary general meeting of the Company to be held at Kowloon Room I, Mezzanine Level, Kowloon Shangri-La Hotel, 64 Mody Road, Tsimshatsui East, Hong Kong on Friday, 6 December 2019 at 10:00 a.m., to consider and, if thought fit, approve the resolutions in respect of the Non-exempt Continuing Connected Transactions, the Proposed Annual Caps and the EGM Supplemental Agreements
“EGM Supplemental Agreements”	collectively, (1) the Supplemental Purchase Agreement; (2) the Supplemental Product Sales Agreement; (3) the Supplemental Non-real Property Lease Expense Agreement; (4) the Supplemental Consolidated Services and Sub-contracting Expense Agreement; (5) the Supplemental Equipment Purchase Agreement; and (6) the Supplemental Sub-contracting Income Agreement
“Equipment Purchase Transaction”	purchase of equipment by the Group from the Hon Hai Group contemplated under the Framework Equipment Purchase Agreement which will (subject to obtaining the Independent Shareholders’ approval) be amended by the Supplemental Equipment Purchase Agreement
“Existing Agreements”	collectively: <ol style="list-style-type: none">(1) Purchase Agreement;(2) Framework Non-real Property Lease Expense Agreement;(3) Consolidated Services and Sub-contracting Expense Agreement;(4) Framework Equipment Purchase Agreement;(5) Framework Product Sales Agreement;(6) Sub-contracting Income Agreement;(7) General Services Expense Agreement (such term as defined in the Announcement);(8) Framework Lease Expense Agreement (such term as defined in the Announcement);(9) Framework Equipment Sale Agreement (such term as defined in the Announcement);(10) Framework Lease Income Agreement (such term as defined in the Announcement); and(11) General Services Income Agreement (such term as defined in the Announcement)

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“Financial Adviser”	Oriental Patron Asia Limited, a licensed corporation under the SFO to carry out Type 1 (dealing in securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities, which has been appointed by the Company to be the financial adviser to advise the Company in respect of the Continuing Connected Transactions, the respective proposed/new annual caps in respect of the Continuing Connected Transactions for the three years ending 31 December 2022 and the Supplemental Agreements
“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, 17 October 2013 and 11 August 2016)
“Framework Non-real Property Lease Expense Agreement”	the framework lease agreement relating to movable non-real properties entered into between the Company and Hon Hai on 13 June 2013 (as amended by the respective supplemental agreements dated 17 October 2013 and 11 August 2016)
“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, whose rights, obligations and liabilities thereunder were subsequently assumed and taken up by Hon Hai) on 18 January 2005 (as amended by the respective supplemental agreements among the above parties dated 28 February 2006, 24 October 2007 and 19 November 2010, and the respective supplemental agreements between the Company and Hon Hai dated 17 October 2013 and 11 August 2016)
“Group”	the Company and/or its subsidiaries (as the case may be)
“HK\$”	Hong Kong dollars, the lawful currency of the Hong Kong Special Administrative Region of the PRC
“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), other than the Group

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“Independent Board Committee”	the independent board committee established by the Board comprising all the independent non-executive Directors, namely Mr. LAU Siu Ki, Dr. Daniel Joseph MEHAN and Mr. TAO Yun Chih, to consider the Non-exempt Continuing Connected Transactions, the EGM Supplemental Agreements and the Proposed Annual Caps
“Independent Financial Adviser” or “Red Sun”	Red Sun Capital Limited, a licensed corporation under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities, 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 Non-exempt Continuing Connected Transactions, the EGM Supplemental Agreements and the Proposed Annual Caps
“Independent Shareholders”	Shareholders other than Hon Hai and its associates
“Latest Practicable Date”	8 November 2019, being the latest practicable date prior to the printing of this circular for ascertaining certain information referred to in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Non-exempt Continuing Connected Transactions”	collectively, (1) the Purchase Transaction; (2) the Product Sales Transaction; (3) the Non-real Property Lease Expense Transaction; (4) the Consolidated Services and Sub-contracting Expense Transaction; (5) the Equipment Purchase Transaction; and (6) the Sub-contracting Income Transaction
“Non-real Property(ies)”	movable non-real property(ies) (which include(s) but not limited to equipment, machines, materials, gears, kits, apparatus and other movable assets) or any part thereof located in different parts of the world as agreed between the Company and Hon Hai from time to time
“Non-real Property Lease Expense Transaction”	the lease of Non-real Properties by the Hon Hai Group to the Group contemplated under the Framework Non-real Property Lease Expense Agreement which will (subject to obtaining the Independent Shareholders’ approval) be amended by the Supplemental Non-real Property Lease Expense Agreement

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“Other Supplemental Agreements”	collectively, (1) the Supplemental General Services Expense Agreement (such term as defined in the Announcement); (2) the Supplemental Lease Expense Agreement (such term as defined in the Announcement); (3) the Supplemental Equipment Sale Agreement (such term as defined in the Announcement); (4) the Supplemental Lease Income Agreement (such term as defined in the Announcement); and (5) the Supplemental General Services Income Agreement (such term as defined in the Announcement)
“Other Transactions”	collectively, (1) the General Services Expense Transaction (such term as defined in the Announcement); (2) the Lease Expense Transaction (such term as defined in the Announcement); (3) the Equipment Sale Transaction (such term as defined in the Announcement); (4) the Lease Income Transaction (such term as defined in the Announcement); and (5) the General Services Income Transaction (such term as defined in the Announcement)
“percentage ratios”	the percentage ratios calculated based on the requirements under Rule 14.07 of the Listing Rules
“PRC”	the People’s Republic of China
“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 which will (subject to obtaining the Independent Shareholders’ approval) be amended by the Supplemental Product Sales Agreement
“Proposed Annual Caps”	the respective proposed annual caps in respect of each of the Non-exempt Continuing Connected Transactions for the three years ending 31 December 2022

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“Purchase Agreement”	the framework materials and components supply agreement (to become the framework product supply agreement, conditional upon obtaining the Independent Shareholders’ approval of the Supplemental Purchase Agreement) entered into among the Company, Hon Hai, Innolux Corporation (formerly known as Innolux Display Corporation and then Chimei Innolux Corporation, whose rights, obligations and liabilities thereunder were subsequently assumed and taken up by Hon Hai) and 鴻準精密工業股份有限公司 (Foxconn Technology Co. Ltd., for identification purposes only, whose rights, obligations and liabilities thereunder were subsequently assumed and taken up by Hon Hai) (both being associates of Hon Hai) on 19 January 2005 (as amended by the respective supplemental agreements among the above parties dated 28 February 2006, 24 October 2007 and 19 November 2010, and the respective supplemental agreements between Hon Hai and the Company dated 17 October 2013, 11 August 2016 and 31 July 2017)
“Purchase Transaction”	purchase of materials and components (and other products, conditional upon obtaining the Independent Shareholders’ approval of the Supplemental Purchase Agreement) by the Group from the Hon Hai Group contemplated under the Purchase Agreement which will (subject to obtaining the Independent Shareholders’ approval) be amended by the Supplemental 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
“Sub-contracting Income Agreement”	the framework sub-contracting 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, 26 July 2012, 17 October 2013 and 11 August 2016)
“Sub-contracting Income Transaction”	the transactions contemplated under the Sub-contracting Income Agreement which will (subject to obtaining the Independent Shareholders’ approval) be amended by the Supplemental Sub-contracting Income Agreement

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“subsidiary(ies)”	having the meaning ascribed to it under the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)
“Supplemental Agreements”	collectively, the EGM Supplemental Agreements and the Other Supplemental Agreements
“Supplemental Consolidated Services and Sub-contracting Expense Agreement”	the supplemental agreement dated the date of the Announcement entered into between the Company and Hon Hai, conditional upon obtaining the Independent Shareholders’ approval, to extend the current term of the Consolidated Services and Sub-contracting Expense Agreement for three years from 1 January 2020 to 31 December 2022 (both dates inclusive)
“Supplemental Equipment Purchase Agreement”	the supplemental agreement dated the date of the Announcement entered into between the Company and Hon Hai, conditional upon obtaining the Independent Shareholders’ approval, to extend the current term of the Framework Equipment Purchase Agreement for three years from 1 January 2020 to 31 December 2022 (both dates inclusive) and to amend certain terms of the Framework Equipment Purchase Agreement
“Supplemental Non-real Property Lease Expense Agreement”	the supplemental agreement dated the date of the Announcement entered into between the Company and Hon Hai, conditional upon obtaining the Independent Shareholders’ approval, to extend the current term of the Framework Non-real Property Lease Expense Agreement for three years from 1 January 2020 to 31 December 2022 (both dates inclusive)
“Supplemental Product Sales Agreement”	the supplemental agreement dated the date of the Announcement entered into between the Company and Hon Hai, conditional upon obtaining the Independent Shareholders’ approval, to extend the current term of the Framework Product Sales Agreement for three years from 1 January 2020 to 31 December 2022 (both dates inclusive) and to amend certain terms of the Framework Product Sales Agreement
“Supplemental Purchase Agreement”	the supplemental agreement dated the date of the Announcement entered into between the Company and Hon Hai, conditional upon obtaining the Independent Shareholders’ approval, to extend the current term of the Purchase Agreement for three years from 1 January 2020 to 31 December 2022 (both dates inclusive) and to amend certain terms of the Purchase Agreement

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“Supplemental Sub-contracting Income Agreement”	the supplemental agreement dated the date of the Announcement entered into between the Company and Hon Hai, conditional upon obtaining the Independent Shareholders’ approval, to extend the current term of the Sub-contracting Income Agreement for three years from 1 January 2020 to 31 December 2022 (both dates inclusive) and to amend certain terms of the Sub-contracting Income Agreement
“US\$”	United States dollars, the lawful currency of the United States of America
“3C”	computer, communication and consumer electronics

LETTER FROM THE BOARD

FIH[®] 富智康[™]

FIH Mobile Limited

富智康集團有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 2038)

Executive Directors:

CHIH Yu Yang (*Acting Chairman and*

Chief Executive Officer)

WANG Chien Ho

KUO Wen-Yi

Independent Non-executive Directors:

LAU Siu Ki

Daniel Joseph MEHAN

TAO Yun Chih

Registered Office:

P. O. Box 31119 Grand Pavilion

Hibiscus Way

802 West Bay Road

Grand Cayman, KY1-1205

Cayman Islands

Head Office:

No. 369 Jianshe South Road

Anci District

Langfang City

Hebei Province

People's Republic of China

Principal Place of Business

in Hong Kong

8th Floor, Peninsula Tower

538 Castle Peak Road

Cheung Sha Wan

Kowloon

Hong Kong

14 November 2019

Dear Shareholders,

**NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS —
EGM SUPPLEMENTAL AGREEMENTS
AND
PROPOSED ANNUAL CAPS**

INTRODUCTION

Reference is made to the Announcement and the announcement of the Company dated 29 October 2019 regarding the change of independent financial adviser and the delay in despatch of circular.

LETTER FROM THE BOARD

Background

The Group is a vertically integrated manufacturing service provider offering a comprehensive range of end-to-end components and manufacturing and engineering services to its customers in respect of handsets and other wireless communication devices and consumer electronic products, including unique and innovative product development and design, casings (the casings may be sold to customers or used to manufacture complete handsets for delivery to customers), components, PCBA (Printed Circuit Board Assembly), full-system assembly etc., and supply chain services and solution, and repair and other after-sales services which are located close to the customers. In addition to handsets, the Group is engaged in the manufacturing of other wireless communication devices and consumer electronic products and accessories and related areas, such as e-Readers, tablets and voice interaction products.

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 61.86% of the total number of issued shares of the Company.

The Group and the Hon Hai Group have been carrying out the Continuing Connected Transactions from time to time upon and subject to the terms and conditions set out in the Existing Agreements. The Existing Agreements will expire on 31 December 2019. The Board wishes to ensure the continuation of the on-going transactions of movable properties, non-movable properties, products and services under the Existing Agreements.

Accordingly, on the date of the Announcement, the Company entered into the Supplemental Agreements with Hon Hai (among other things) to extend the current term of the Existing Agreements for three years commencing from 1 January 2020. Save for (i) the aforesaid extension of the current term of each of the Existing Agreements; and (ii) the expansion of the scope of services or products (as the case may be) as the subject matters to be provided under the Purchase Agreement, the Framework Product Sales Agreement, the Framework Equipment Purchase Agreement and the Sub-contracting Income Agreement respectively in anticipation of the future business expansion and developments of the Group or the Hon Hai Group (as the case may be) as more particularly described below, the other principal terms and conditions of each of the Existing Agreements shall remain unchanged and in full force and effect. The Existing Agreements (as amended and supplemented from time to time) are just framework agreements which set out the general/basic principles governing the transactions between the Group and the Hon Hai Group in respect of the Continuing Connected Transactions. According to the Existing Agreements, the Company (or any other member of the Group) and Hon Hai (or any other member of the Hon Hai Group) may enter into a separate lease agreement, purchase order and/or other forms of agreement setting out the detailed terms and conditions (including but not limited to the transaction amount, payment terms and delivery date) for each transaction contemplated under the framework of the relevant Continuing Connected Transactions, such separate agreements to be consistent with the corresponding Existing Agreements in all material respects. The terms (including but not limited to the price or transaction fee) in respect of the transactions contemplated under the framework of the relevant Continuing Connected Transactions will be determined based on arm's length negotiations between the contracting parties to such separate agreements.

LETTER FROM THE BOARD

Listing Rules Implications

As mentioned above, Hon Hai is the ultimate controlling shareholder of the Company as at the Latest Practicable Date. Therefore, Hon Hai is a connected person of the Company. Accordingly, the transactions contemplated under the Continuing Connected Transactions entered into between the Group and the Hon Hai Group from time to time constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As at least one of the applicable percentage ratios (other than the profits ratio) in respect of the maximum amount of the Proposed Annual Caps, on an annual basis, is more than 5%, and each of the Proposed Annual Caps is more than HK\$10 million and in view of the connections between the Non-real Property Lease Expense Transaction and the Product Sales Transaction as more particularly disclosed in the section headed “Reasons and Benefits for the Non-exempt Continuing Connected Transactions” of this circular, each of the Non-exempt Continuing Connected Transactions constitutes a non-exempt continuing connected transaction for the Company under the Listing Rules. Accordingly, the Non-exempt Continuing Connected Transactions, the Proposed Annual Caps and the EGM Supplemental Agreements are subject to the reporting, announcement, annual review and the approval of the Independent Shareholders requirements under Chapter 14A of the Listing Rules.

General

The purpose of this circular is to provide you with (i) details of the Non-exempt Continuing Connected Transactions, the Proposed Annual Caps and the EGM Supplemental Agreements; (ii) the letter of advice from the Independent Board Committee to the Independent Shareholders; (iii) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; and (iv) a notice of the EGM.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Set out below are the principal terms and conditions governing the Non-exempt Continuing Connected Transactions together with the Existing Agreements in respect of the Non-exempt Continuing Connected Transactions and the EGM Supplemental Agreements:

(A) Purchase of products or services, lease of movable properties or purchase of equipment from the Hon Hai Group by the Group

1. Purchase Transaction

Pursuant to the Purchase Agreement, the Group has agreed to purchase materials and components that may be used in the handset manufacturing services business of the Group from the Hon Hai Group for a term up to 31 December 2019 upon and subject to the terms and conditions set out therein.

On the date of the Announcement, the Company and Hon Hai entered into the Supplemental Purchase Agreement, which will become effective only after the passing of the resolutions in respect of the Supplemental Purchase Agreement by the

LETTER FROM THE BOARD

Independent Shareholders at the EGM, to amend certain terms of the Purchase Agreement. Pursuant to the Supplemental Purchase Agreement, (i) the scope of the products as the subject matter to be purchased under the Purchase Agreement will be expanded to cover such products (including but not limited to materials and components, tooling, light-guides and finished goods generally) manufactured, owned or held (coupled with interest) by the Hon Hai Group that may be used in connection with or for the purposes of the businesses of the Group from time to time as well as such other products (including but not limited to any materials and components) as may be agreed between the Group and the Hon Hai Group from time to time, and in this respect, the scope of the aforesaid materials and components will be expanded to cover die-casting parts, flexible PCBs (printed circuit boards), PCBs, display/touch modules, heat sinks, work-in-progress generally and other materials and components that may be used in connection with or for the purposes of the businesses of the Group from time to time as well as such other materials and/or components as may be agreed between the Group and the Hon Hai Group from time to time; and (ii) the current term of the Purchase Agreement will be extended for three years from 1 January 2020 to 31 December 2022 (both dates inclusive).

Pricing Terms for the Purchase Transaction

Under the Purchase Transaction, the applicable price of the materials and components (to become the products pursuant to the Supplemental Purchase Agreement) to be purchased from the Hon Hai Group will be determined based on the following:

- (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 but not limited to camera modules and display/touch modules 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.

LETTER FROM THE BOARD

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 (as the case may be).

These payment terms were usually adopted by the Group in its transactions with independent third parties or the Hon Hai Group. Such terms are on normal commercial terms and not more favourable than those offered by the Group to independent third parties.

2. Non-real Property Lease Expense Transaction

Pursuant to the Framework Non-real Property Lease Expense Agreement, the Group has agreed to lease the Non-real Properties from the Hon Hai 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.

On the date of the Announcement, the Company and Hon Hai entered into the Supplemental Non-real Property Lease Expense Agreement, which will become effective only after the passing of the resolutions in respect of the Supplemental Non-real Property Lease Expense Agreement by the Independent Shareholders at the EGM, to extend the current term of the Framework Non-real Property Lease Expense Agreement for three years from 1 January 2020 to 31 December 2022 (both dates inclusive).

Pricing Terms for the Non-real Property Lease Expense Transaction

Under the Non-real Property Lease Expense Transaction, the rental will be determined based on the following:

- (1) The rental payable by the Group under the Non-real Property Lease Expense Transaction shall be determined on a fair and reasonable basis with reference to the average market rental of other similar properties in the market; or
- (2) If the average market rental is not available, the rental payable under the Non-real Property Lease Expense Transaction shall be determined on a "cost plus" basis; or
- (3) If both the average market rental basis and the "cost plus" basis are not appropriate or applicable, the rental payable under the Non-real Property Lease Expense Transaction shall be agreed between the relevant parties based on reasonable commercial principles.

Under the Non-real Property Lease Expense Transaction, the Group leases from the Hon Hai Group the Non-real Properties (including but not limited to equipment, machines and other movable assets used in the Group's handset manufacturing). Such equipment and machines comprise primarily CNC (computer numeric control) machining centers and laser marking machines. Due to technological changes and

LETTER FROM THE BOARD

advancement, the specifications of the equipment and machines (including but not limited to their speed and accuracy) will change over time and the rental payable will need to take such changes into account. Accordingly, the Group is not able to fix the rentals for the Non-real Property Lease Expense Transaction but has instead agreed to the pricing terms set out above.

The relevant parties may enter into a separate specific lease agreement for the relevant Non-real Property to be leased by the Group from the Hon Hai Group under the Non-real Property Lease Expense Transaction. Such specific lease agreement (containing terms and conditions consistent with the terms and conditions of the Framework Non-real Property Lease Expense Agreement) specifies in detail the term, rental and other terms and conditions governing the lease of such Non-real Property.

The rental under the Non-real Property Lease Expense Transaction will be payable by the Group to the Hon Hai Group within such period(s) agreed by the relevant parties from time to time on a case-by-case basis and is expected to be usually payable within 90 days after the date of the relevant invoice or the Group's accounting record posting date for the Non-real Property Lease Expense Transaction (as the case may be).

These payment terms were usually adopted by the Group in its transactions with independent third parties or the Hon Hai Group. Such terms are on normal commercial terms and not more favourable than those offered by the Group to independent third parties.

3. Consolidated Services and Sub-contracting Expense Transaction

Pursuant to the Consolidated Services and Sub-contracting Expense Agreement, the Hon Hai Group has agreed to provide certain services (including but not limited to research and development services, design services, repair services and sub-contracting services) to the Group for a term up to 31 December 2019 upon and subject to the terms and conditions set out therein.

On the date of the Announcement, the Company and Hon Hai entered into the Supplemental Consolidated Services and Sub-contracting Expense Agreement, which will become effective only after the passing of the resolutions in respect of the Supplemental Consolidated Services and Sub-contracting Expense Agreement by the Independent Shareholders at the EGM, to extend the current term of the Consolidated Services and Sub-contracting Expense Agreement for three years from 1 January 2020 to 31 December 2022 (both dates inclusive).

LETTER FROM THE BOARD

Pricing Terms for the Consolidated Services and Sub-contracting Expense Transaction

Under the Consolidated Services and Sub-contracting Expense Transaction, the applicable price of the services and/or sub-contracting services to be provided by the Hon Hai Group will be determined based on the following:

- (1) 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
- (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 Consolidated Services and Sub-contracting Expense Transaction, the Hon Hai Group provides sub-contracting services (including but not limited to handset research and development services, handset design services and handset and mould repair services) to the Group. As the specifications of such services are agreed between the parties each time a transaction is entered into and having regard to the changing market conditions (which may affect the prices of such services), the Group is not able to fix the prices for the Consolidated Services and Sub-contracting Expense Transaction but has instead agreed to the pricing terms set out above.

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 (as the case may be).

These payment terms were usually adopted by the Group in its transactions with independent third parties or the Hon Hai Group. Such terms are on normal commercial terms and not more favourable than those offered by the Group to independent third parties.

4. Equipment Purchase Transaction

Pursuant to the Framework Equipment Purchase Agreement, the Group has agreed to purchase equipment that may be used in the Group’s handset manufacturing services business from the Hon Hai Group from time to time for a term up to 31 December 2019 upon and subject to the terms and conditions set out therein.

LETTER FROM THE BOARD

On the date of the Announcement, the Company and Hon Hai entered into the Supplemental Equipment Purchase Agreement, which will become effective only after the passing of the resolutions in respect of the Supplemental Equipment Purchase Agreement by the Independent Shareholders at the EGM. Pursuant to the Supplemental Equipment Purchase Agreement, (i) the scope of the equipment as the subject matter to be purchased under the Framework Equipment Purchase Agreement will be expanded to cover baking and coating lines and other equipment that is manufactured, owned or held (coupled with interest) by the Hon Hai Group which may be used in connection with or for the purposes of the Group's businesses from time to time (including but not limited to new equipment that is manufactured or purchased or procured from third parties by the Hon Hai Group, and used equipment that has previously been used by the Hon Hai Group) as well as such other equipment as may be agreed between the Hon Hai Group and the Group from time to time; and (ii) the current term of the Framework Equipment Purchase Agreement will be extended for three years from 1 January 2020 to 31 December 2022 (both dates inclusive).

Pricing Terms for the Equipment Purchase Transaction

Under the Equipment Purchase Transaction, the applicable price of the equipment to be purchased from the Hon Hai Group will be determined based on the following:

- (1) at the book value of the relevant equipment as recorded in the accounts of the relevant member of the Hon Hai Group; or
- (2) if (1) above is not appropriate or applicable, at a price to be determined by reference to the average market price; or
- (3) where (1) and (2) 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
- (4) where none of the above pricing bases is appropriate or applicable, at a price to be agreed between the parties based on reasonable commercial principles.

Under the Equipment Purchase Transaction, the Group purchases from the Hon Hai Group used or new equipment mainly for handset manufacturing (including but not limited to CNC (computer numeric control) machining centers and mechanical hands and laser cutting machines) in response to customers' orders and manufacturing needs which change over time leading to recurring purchases of equipment from the Hon Hai Group. As the specifications of the new equipment are tailor-made for the Group's needs while the used equipment has various specifications and conditions, the Group does not have fixed prices for the equipment purchased from the Hon Hai Group but has instead agreed to the pricing terms set out above.

LETTER FROM THE BOARD

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

These payment terms were usually adopted by the Group in its transactions with independent third parties or the Hon Hai Group. Such terms are on normal commercial terms and not more favourable than those offered by the Group to independent third parties.

(B) Sale of products or services to the Hon Hai Group by the Group

5. *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.

On the date of the Announcement, the Company and Hon Hai entered into the Supplemental Product Sales Agreement, which will become effective only after the passing of the resolutions in respect of the Supplemental Product Sales Agreement by the Independent Shareholders at the EGM, to amend certain terms of the Framework Product Sales Agreement. Pursuant to the Supplemental Product Sales Agreement, (i) the scope of the products as the subject matter to be sold under the Framework Product Sales Agreement will be expanded to cover such products (including but not limited to materials and components, tooling, light-guides and finished goods generally) manufactured, owned or held (coupled with interest) by the Group that may be used in connection with or for the purposes of the businesses of the Hon Hai Group from time to time as well as such other products (including but not limited to any materials and components) as may be agreed between the Group and the Hon Hai Group from time to time, and in this respect, the scope of the aforesaid materials and components will be expanded to cover die-casting parts, flexible PCBs (printed circuit boards), PCBs, display/touch modules, heat sinks, work-in-progress generally and other materials and components that may be used in connection with or for the purposes of the businesses of the Hon Hai Group from time to time as well as such other materials and/or components as may be agreed between the Group and the Hon Hai Group from time to time; and (ii) the current term of the Framework Product Sales Agreement will be extended for three years from 1 January 2020 to 31 December 2022 (both dates inclusive).

LETTER FROM THE BOARD

Pricing Terms for the Product Sales Transaction

Under the Product Sales Transaction, the applicable price of the products (including but not limited to materials and components) to be sold to the Hon Hai Group will be determined based on the following:

- (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 but not limited to handset products, handset parts and 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.

These payment terms were usually adopted by the Group in its transactions with independent third parties or the Hon Hai Group. Such terms are on normal commercial terms and not more favourable than those offered by the Group to independent third parties.

6. *Sub-contracting Income Transaction*

Pursuant to the Sub-contracting Income Agreement, the Hon Hai Group has agreed to engage the Group to provide certain services (such as molding, metal stamping for handsets and desktop computers, handset repair services and other services) to the Hon Hai Group for a term up to 31 December 2019 upon and subject to the terms and conditions set out therein.

LETTER FROM THE BOARD

On the date of the Announcement, the Company and Hon Hai entered into the Supplemental Sub-contracting Income Agreement, which will become effective only after the passing of the resolutions in respect of the Supplemental Sub-contracting Income Agreement by the Independent Shareholders at the EGM, to amend certain terms of the Sub-contracting Income Agreement. Pursuant to the Supplemental Sub-contracting Income Agreement, (i) the scope of the services as the subject matter to be provided under the Sub-contracting Income Agreement will be expanded to cover handset and in-mould labelling research and development and other research and development services; handset and other design services; handset and mould and other repair services; molding, electroplating, metal stamping for handsets and desktop computers and other services that may form part of or be provided as part of the businesses of the Hon Hai Group from time to time; the use of technical equipment and facilities owned or leased by the Group to support the foregoing; the provision of personnel and other resources as may be required to support the foregoing; and such other services and/or sub-contracting as may be agreed between the Hon Hai Group and the Group from time to time; and (ii) the current term of the Sub-contracting Income Agreement will be extended for three years from 1 January 2020 to 31 December 2022 (both dates inclusive).

Pricing Terms for the Sub-contracting Income Transaction

Under the Sub-contracting Income Transaction, the applicable price of the services to be provided to the Hon Hai Group will be determined based on the following:

- (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 Sub-contracting Income Transaction, the Group provides to the Hon Hai Group sub-contracting services (including but not limited to handset research and development services, handset design services, and handset and mould repair services). As the specifications of such services are agreed between the parties each time a transaction is entered into and having regard to the changing market conditions (which may affect the prices of such services), the Group is not able to fix the prices for the Sub-contracting Income Transaction but has instead agreed to the pricing terms set out above.

LETTER FROM THE BOARD

Payment for the Sub-contracting Income Transaction is usually received by the Group within 90 days after the date of the relevant invoice.

These payment terms were usually adopted by the Group in its transactions with independent third parties or the Hon Hai Group. Such terms are on normal commercial terms and not more favourable than those offered by the Group to independent third parties.

PRICING DETAILS

Below are details regarding the application of the pricing terms of the Non-exempt Continuing Connected Transactions. Such pricing details are equally applicable to transactions with independent third parties.

	Pricing terms	Pricing details
(A)	Purchase of products or services, lease of movable properties or purchase of equipment from the Hon Hai Group by the Group	
1. Purchase Transaction	(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	Where the Group's customer approves or otherwise designates the Hon Hai Group as an Approved Vendor in respect of the supply of certain materials and components (and other products, conditional upon obtaining the Independent Shareholders' approval of the Supplemental Purchase Agreement) 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 (and other products) from the Hon Hai Group, such materials and components (and other products) 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/(other products) 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 (and other products) from the Hon Hai Group at the price agreed between the Group's customer and the Hon Hai Group if the Group 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 direct involvement) and the relative costs of manufacturing such product, including the cost of materials and components (and other products) 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 materials/components/(other products) from the Hon Hai Group if it is profitable to do so, the Group considers that such pricing basis is on normal commercial terms or better.

LETTER FROM THE BOARD

Pricing terms

- (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

Pricing details

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 or the market price (if there is only one independent transaction available). These materials/components/other products) mainly include 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/other products) from independent suppliers or quotations from independent suppliers, if available. In general, the Group will select at least one independent transaction (which is concluded after considering at least two quotations from independent suppliers) or (if independent transactions are not available) two quotations from independent suppliers within six 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). The Group will review and check to ensure that the transaction price as agreed between the Group and the Hon Hai Group is not less favourable than the average market price or the market price (if there is only one independent transaction available).

Cost plus is determined based on the Hon Hai Group's cost of the materials and components (and other products) to be purchased by the Group plus a margin as agreed between the Group and the Hon Hai Group. The materials/components/other products) mainly include casing 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 materials and/or components (and/or other products) of similar nature in the market by way of referring to margins for sales of materials and/or components (and/or other products) of similar nature by the Group to independent customers, or (if the Group has no recent sale transaction of similar materials and/or components (and/or other products) or if the Group has not sold similar materials and/or components (and/or other products) before) by the Hon Hai Group to independent customers. In general, the Group will select one independent transaction (most related to the subject material/component/other product) in nature) within six months of the proposed transaction with the Hon Hai Group to determine the margin. In case there is no recent sale of materials and/or components (and/or other products) of similar nature by the Group or the Hon Hai Group (as the case may be) to independent customers, the Group will make reference to the historical margin for sales of materials and/or components (and/or other products) of similar nature by the Group to independent customers. The Group will review and check to ensure that the Hon Hai Group's cost of the materials and components (and other products) to be purchased by the Group and the margin as agreed between the Group and the Hon Hai Group adhere to the pricing terms and details. The Group will review and check the cost analysis (including cost breakdown and margin) of similar materials and components (and other products) sold by the Group to independent customers, or collect the cost analysis of similar materials and components (and other products) sold by the Hon Hai Group to independent customers (if the Group has no recent sales transaction of similar materials and/or components (and/or other products) or if the Group has not sold similar materials and/or components (and/or other products) before) to review and check, to ensure that the margin as agreed between the Group and the Hon Hai Group is not less favourable than the margin of similar materials and components (and other products) sold to independent customers by the Group or the Hon Hai Group.

LETTER FROM THE BOARD

Pricing terms

Pricing details

2. Non-real Property Lease Expense Transaction	<p>(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.</p> <p>(a) the rental payable by the Group under the Non-real Property Lease Expense Transaction shall be determined on a fair and reasonable basis with reference to the average market rental of other similar properties in the market; or</p> <p>(b) if the average market rental is not available, the rental payable under the Non-real Property Lease Expense Transaction shall be determined on a “cost plus” basis; or</p>	<p>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 Group would make the purchases at such lower prices as agreed by the Hon Hai Group. The Group shall review and ensure that such prices are lower than costs and market prices.</p> <p>This pricing term has not been applied since 2015 but remains to be relevant to cater to such circumstances in the future.</p> <p>For the purpose of obtaining market rentals, the Group refers to recent lease transaction(s) of the Group of Non-real Properties from independent third parties, if available. In general, the Group will select at least one independent transaction (which is concluded after considering at least two quotations from independent lessors) or (if independent transactions are not available) two quotations from independent lessors within six months of the proposed transaction with the Hon Hai Group in order to determine the average market rental or the market rental (if there is only one independent transaction available). The Group will review and check to ensure that the transaction rental as agreed between the Group and the Hon Hai Group is not less favourable than the average market rental or the market rental (if there is only one independent transaction available).</p> <p>Cost plus is determined based on the Hon Hai Group’s relevant cost of the transaction plus a margin as agreed between the Group and the Hon Hai Group. In determining the margin, the Group takes into account the margin for lease of Non-real Properties of similar nature in the market by way of referring to margins for the Group’s lease of Non-real Properties of similar nature from independent parties. In general, the Group will select one independent transaction (most related to the subject Non-real Property in nature) within six months of the proposed transaction with the Hon Hai Group to determine the margin. In case there is no recent lease of Non-real Properties of similar nature by the Group from independent parties, the Group will make reference to the historical margins for the Group’s lease of Non-real Properties of similar nature from independent parties. The cost is usually determined on the basis of the depreciation charge and the related costs of the Non-real Property such as interests and insurance costs. The Group will review and check to ensure that the cost of the transaction incurred by the Hon Hai Group and the margin as agreed between the Group and the Hon Hai Group adhere to the pricing terms and details and the margin as agreed between the Group and the Hon Hai Group is fair and reasonable and not less favourable than the margin for the Group’s lease of Non-real Properties of similar nature from independent parties.</p>
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LETTER FROM THE BOARD

Pricing terms

- (c) if both the average market rental basis and the “cost plus” basis are not appropriate or applicable, the rental payable under the Non-real Property Lease Expense Transaction shall be agreed between the relevant parties based on reasonable commercial principles.

3. Consolidated Services and Sub-contracting Expense Transaction

- (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

Pricing details

In consideration of its Non-real Properties utilisation management, the Hon Hai Group may agree to prices lower than costs and market prices. In such cases, the Group would lease such Non-real Properties from the Hon Hai Group at such lower prices as agreed by the Hon Hai Group. The Group shall review and ensure that 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.

Where the Hon Hai Group is approved or otherwise designated by the customers of the Group to provide sub-contracting services to the Group to be used in the Group’s manufacturing of final products to the Group’s customers and the Group requires such services from the Hon Hoi Group, the services are charged at prices agreed between the Hon Hai Group and the Group’s customers (without the Group’s direct involvement). In respect of the sub-contracting services designated to be provided by the Hon Hai Group, the Group is not allowed to source them from other service providers. The Group will agree to require such sub-contracting services from the Hon Hai Group at the price agreed between the Group’s customer and the Hon Hai Group if the Group 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 direct involvement) and the relative costs of manufacturing such product, including the sub-contracting cost charged by the Hon Hai Group. Given that such pricing mechanism is in line with market practice and the Group will only agree to require such sub-contracting service from the Hon Hai Group if it is profitable to do so, the Group considers that such pricing basis is on normal commercial terms or better.

Where the Hon Hai Group is not approved or otherwise designated by the Group’s customers, the price is determined by reference to the average market price or the market price (if there is only one independent transaction available). For the purpose of obtaining market prices, the Group refers to recent transaction(s) of the Group involving the purchase of sub-contracting services from independent service providers or quotations from independent service providers, if available. In general, the Group will select at least one independent transaction (which is concluded after considering at least two quotations from independent service providers) or (if independent transactions are not available) two quotations from independent service providers within six 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). The Group will review and check to ensure that the transaction price as agreed between the Group and the Hon Hai Group is not less favourable than the average market price or the market price (if there is only one independent transaction available).

LETTER FROM THE BOARD

Pricing terms

(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.

4. Equipment Purchase Transaction

(a) at the book value of the relevant equipment as recorded in the accounts of the relevant member of the Hon Hai Group; or

Pricing details

Cost plus is determined based on the Hon Hai Group’s cost of the sub-contracting services provided to the Group plus a margin as agreed between the Group and the Hon Hai Group. In determining the margin, the Group takes into account the margin for sub-contracting services of similar nature in the market by way of referring to margins for the Group’s provision of sub-contracting services of similar nature to independent customers. In general, the Group will select one independent transaction (most related to the subject sub-contracting service in nature) within six months of the proposed transaction with the Hon Hai Group to determine the margin. In case there is no recent provision of sub-contracting services of similar nature by the Group to independent customers, the Group will make reference to the margins of the historical transactions involving the Group’s provision of sub-contracting services of similar nature to independent customers. The Group will review and check to ensure that the Hon Hai Group’s cost of the sub-contracting services provided to the Group and the margin as agreed between the Group and the Hon Hai Group adhere to the pricing terms and details and the margin as agreed between the Group and the Hon Hai Group is fair and reasonable and not less favourable than the margin for the Group’s provision of sub-contracting services of similar nature to independent customers.

In consideration of its capacity utilisation management, the Hon Hai Group may agree to prices lower than costs and market prices. In such cases, the Group would acquire the sub-contracting services from the Hon Hai Group at such lower prices as agreed by the Hon Hai Group. The Group shall review and ensure that 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.

The book value of the equipment is based on the accounting records of the relevant member of the Hon Hai Group. This pricing is applied mainly for used equipment. Given that the specifications and conditions of the used equipment purchased from the Hon Hai Group vary, market prices may not be available. As such, the Group considers that it is fair and reasonable to set a price based on the book value of the equipment as reported in the relevant accounting records in accordance with the International Financial Reporting Standards.

LETTER FROM THE BOARD

Pricing terms

- (b) if (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

Pricing details

The average market price is based on quotations provided by independent suppliers, if available. In general, the Group will select at least one independent transaction (which is concluded after considering at least two quotations from independent suppliers) or (if independent transactions are not available) two quotations from independent suppliers within six 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). The Group will review and check to ensure that the transaction price as agreed between the Group and the Hon Hai Group is not less favourable than the average market price or the market price (if there is only one independent transaction available).

This pricing is applied mainly for new equipment manufactured by the Hon Hai Group.

Cost plus is determined based on the cost of the equipment purchased from the Hon Hai Group plus a margin as agreed between the Group and the Hon Hai Group. In determining the margin, the Group takes into account the margin for equipment of similar nature in the market by way of referring to margins for the Hon Hai Group’s sales, or (if the Hon Hai Group has no recent sale transaction of similar equipment or if the Hon Hai Group has not sold such similar equipment before) the Group’s sales (if available) of equipment of similar nature to independent customers. In general, the Group will select one independent transaction (most related to the subject equipment in nature) within six months of the proposed transaction with the Hon Hai Group to determine the margin. In case there is no recent sale of equipment of similar nature to independent customers by the Group or the Hon Hai Group, the Group will make reference to the margins of the historical transactions involving the sales of equipment of similar nature to independent customers by the Group or the Hon Hai Group. The Group will review and check to ensure that the cost of the equipment purchased from the Hon Hai Group and the margin as agreed between the Group and the Hon Hai Group adhere to the pricing terms and details. The Group will collect the cost analysis of similar equipment (including cost breakdown and margin) sold by the Hon Hai Group to independent customers (if the Hon Hai Group has such recent sales transaction available) to review and check, or (if the Hon Hai Group has no recent sales transaction of similar equipment or if the Hon Hai Group has not sold similar equipment before) review and check the cost analysis of the Group’s sales (if available) of equipment of similar nature to independent customers, to ensure that the margin as agreed between the Group and the Hon Hai Group is fair and reasonable and is not less favourable than the margin of the transactions involving the sales of equipment of similar nature to independent customers by the Group or the Hon Hai Group.

LETTER FROM THE BOARD

Pricing terms

- (d) where none of the above pricing bases is appropriate or applicable, at a price to be agreed between the parties based on reasonable commercial principles.

Pricing details

In consideration of its equipment utilisation management, the Hon Hai Group may agree to prices lower than book value, costs and market prices. In such cases, the Group would purchase the equipment from the Hon Hai Group at such lower prices as agreed by the Hon Hai Group. The Group shall review and ensure that such prices are lower than book value, 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.

(B) Sale of products or services to the Hon Hai Group by the Group

5. Product Sales Transaction

- (a) 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

Where the Group is approved or otherwise designated by the customers of the Hon Hai 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).

Where the Group is not approved or otherwise designated by the customers of the Hon Hai 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 products mainly include handset products and parts and other products sourced from independent vendors in the market.

For the purpose of obtaining market prices, the Group refers to recent sales/purchases transaction(s) of the Group of same products to/from independent customers/suppliers, if available. In general, the Group will select at least one independent transaction (which is concluded after considering at least two quotations from independent customers/suppliers) or (if independent transactions are not available) two quotations from independent customers/suppliers within six 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). The Group will review and check to ensure that the transaction price as agreed between the Group and the Hon Hai Group is not less favourable than the average market price or the market price (if there is only one independent transaction available).

LETTER FROM THE BOARD

Pricing terms

- (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.

Pricing details

Cost plus is determined based on the Group’s 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 tailor-made by the Group according to the Hon Hai Group’s 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 the Group’s sales of products of similar nature to independent customers. In general, the Group will select one independent transaction (most related to the subject product in nature) within six months of the proposed transaction with the Hon Hai Group to determine the margin. In case there is no recent sale of products of similar nature to independent customers by the Group, the Group will make reference to the margins of the historical transactions involving the sales of products of similar nature to independent customers by the Group. The Group will review and check to ensure that the margin as agreed between the Group and the Hon Hai Group is fair and reasonable adhering to the pricing terms and details and not less favourable than the margin for the Group’s sales of products of similar nature to independent customers.

In consideration of its inventory optimisation management, the Group may agree to prices lower than costs or prices/margins under the Group’s recent independent transactions. In such cases, the Group would only accept such lower prices if the products could not be sold at higher prices to other independent customers and the Group does not consider it to be in its interests to keep such inventory having regard to factors such as inventory obsolescence. The Group will attempt to solicit purchases from independent parties and will ensure that the prices 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 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 term.

This pricing term has not been applied since 2015 but remains to be relevant to cater to such circumstances in the future.

LETTER FROM THE BOARD

Pricing terms

6. Sub-contracting Income Transaction
- (a) 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
- (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.

Pricing details

Where the Group is approved or otherwise designated by the customers of the Hon Hai Group to provide sub-contracting services to the Hon Hai Group, the sub-contracting services are provided at prices agreed between the Group and the Hon Hai Group’s customers (without the Hon Hai Group’s direct involvement).

Where the Group is not approved or otherwise designated by the customers of the Hon Hai Group, the price is determined by reference to the average market price or the market price (if there is only one independent transaction available). For the purpose of obtaining market prices, the Group refers to recent transaction(s) of the Group involving the provision of sub-contracting services to independent customers, if available. In general, the Group will select at least one independent transaction (which is concluded after considering at least two quotations from independent customers) or (if independent transactions are not available) two quotations from independent customers within six 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). The Group will review and check to ensure that the transaction price as agreed between the Group and the Hon Hai Group is not less favourable than the average market price or the market price (if there is only one independent transaction available).

Cost plus is determined based on the cost of the sub-contracting services provided by the Group to the Hon Hai Group plus a margin as agreed between the Group and the Hon Hai Group. In determining the margin, the Group takes into account the margin for the provision of sub-contracting services of similar nature in the market by way of referring to margins for the Group’s provision of sub-contracting services of similar nature to independent customers. In general, the Group will select one independent transaction (most related to the subject sub-contracting services in nature) within six months of the proposed transaction with the Hon Hai Group to determine the margin. In case there is no recent provision of sub-contracting services of similar nature to independent customers by the Group, the Group will make reference to the margins of the historical transactions involving the provision of sub-contracting services of similar nature to independent customers by the Group. The Group will review and check to ensure that the margin as agreed between the Group and the Hon Hai Group is fair and reasonable adhering to the pricing terms and details and not less favourable than the margin for the Group’s provision of sub-contracting services of similar nature to independent customers.

In consideration of its capacity utilisation management, the Group may agree to prices lower than costs or prices under the Group’s recent independent transactions. In such cases, the Group would only accept such lower prices if a contribution margin (i.e. surplus of transaction prices over variable costs) is available to cover any fixed costs. The Group will solicit independent customers to use its sub-contracting services and will ensure that the price of the sub-contracting services charged to the Hon Hai Group will not be lower than prices offered to interested independent customers.

This pricing term has not been applied since 2015 but remains to be relevant to cater to such circumstances in the future.

LETTER FROM THE BOARD

REASONS AND BENEFITS FOR THE NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

The Group and the Hon Hai Group have been carrying out the Continuing Connected Transactions to facilitate their respective businesses and operations from time to time. In general, in view of the long-established relationship and connections between the Group and the Hon Hai Group and the global geographical convenience and proximity between the Group and the Hon Hai Group offering (among other things) efficient, convenient and timely communication and coordination between the parties to the transactions contemplated by each category of the Continuing Connected Transactions, the relevant Continuing Connected Transactions provide a reliable, timely and efficient supply of materials, components and other products and provision of services in support of the Group's daily business operations, which are favourable to the Group's effective control and management over the product procurement, performance and quality, timeliness, production, facilities, capacities, expenditures, supply chain and after-sales services, whereas the relevant Continuing Connected Transactions generate more income for the Group and enhance the utilisation and management of the Group's assets and services. In particular, the continuous entering into of the Continuing Connected Transactions between the Group and the Hon Hai Group from time to time can effectively lower the operation risks of both the Group and the Hon Hai Group mutually, and is favourable to the Group's daily business operations on an on-going basis.

The Existing Agreements will expire on 31 December 2019. The Board wishes to ensure the continuation of the on-going transactions of movable properties, non-movable properties, products and services under the Existing Agreements. Accordingly, on the date of the Announcement, the Company entered into the Supplemental Agreements with Hon Hai (among other things) to extend the current term of the Existing Agreements for a term of three years commencing from (and inclusive of) 1 January 2020.

In addition and without prejudice to the generality of the foregoing, the reasons and benefits for entering into and carrying out each of the Non-exempt Continuing Connected Transactions are set out below:

1. 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.

LETTER FROM THE BOARD

2. Non-real Property Lease Expense Transaction

In carrying out the Product Sales Transaction and other manufacturing projects, the Group may require the use of the Non-real Properties (including but not limited to specialised equipment and machines). By leasing such Non-real Properties from the Hon Hai Group, the Group may gain access to the use of such Non-real Properties at rental rates agreeable to the Company saving capital expenditures.

3. 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.

4. 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 the Hon Hai Group'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.

5. 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.

6. Sub-contracting Income 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 Sub-contracting Income Transaction as long as the services are provided at prices that are fair and reasonable pursuant to the Sub-contracting Income Agreement.

LETTER FROM THE BOARD

HISTORICAL VALUES AND PROPOSED ANNUAL CAPS

The table below sets out (1) the historical actual amounts of each of the above categories of the Non-exempt Continuing Connected Transactions for the two years ended 31 December 2018 and for the nine months ended 30 September 2019; (2) the existing annual caps of each of the Non-exempt Continuing Connected Transactions for the year ending 31 December 2019; and (3) the Proposed Annual Caps:

	Actual transaction amounts			Existing	Proposed Annual Caps		
	For the year ended 31 December 2017 <i>(audited)</i>	For the year ended 31 December 2018 <i>(audited)</i>	For the nine months ended 30 September 2019 <i>(unaudited)</i>	annual caps for the year ending 31 December 2019	For the year ending 31 December		
<i>(in US\$'000)</i>					2020	2021	2022
(A) Purchase of products or services, lease of movable properties or purchase of equipment from the Hon Hai Group by the Group							
1. Purchase Transaction	1,319,529	1,030,816	776,347	2,725,000	1,889,106	2,334,761	2,885,550
2. Non-real Property Lease Expense Transaction	13,287	12,791	6,086	21,000	24,577	32,483	42,932
3. Consolidated Services and Sub-contracting Expense Transaction	229,483	240,877	181,519	381,000	335,326	414,432	512,200
4. Equipment Purchase Transaction	80,457	64,727	22,556	187,000	109,382	135,186	167,077
(B) Sale of products or services to the Hon Hai Group by the Group							
5. Product Sales Transaction	1,684,285	1,207,353	789,294	2,588,000	2,289,785	2,829,964	3,497,575
6. Sub-contracting Income Transaction	104,698	26,180	24,987	130,000	142,342	175,921	217,422

The Company confirms that the total actual transaction amount for each of the Non-exempt Continuing Connected Transactions for the nine months ended 30 September 2019 has not exceeded the corresponding existing annual cap amount for the year ending 31 December 2019, and will continue to monitor jointly with the Company's external auditor to ensure that the total transaction amount for each of the Non-exempt Continuing Connected Transactions for the year ending 31 December 2019 will not exceed such corresponding existing annual cap amount for the year ending 31 December 2019. For more details, please see the 2nd and 4th bullet points of the section headed "Internal Control Measures" below.

LETTER FROM THE BOARD

Basis for determining the Proposed Annual Cap Amounts

The proposed annual cap amounts for the years of 2020, 2021 and 2022 for each of the Non-exempt Continuing Connected Transactions are mainly based on:

1. *Purchase Transaction*

- (a) the historical transaction amounts and the estimated transaction amount for the whole year of 2019;
- (b) the historical growth rate of turnover of the Group during the current term of the Purchase Agreement;
- (c) the anticipated increase in the purchase of materials or components (or other products) from the Hon Hai Group to meet the production needs of the Group due to the increasing number of types and variety of materials and components (and other products) manufactured, owned or held (coupled with interest) by the Hon Hai Group; and
- (d) a buffer of approximately 10% to cater for any unforeseen changes in market conditions (including but not limited to an unexpected increase in customer demand and/or unexpected increase in the cost of supply, where applicable).

2. *Non-real Property Lease Expense Transaction*

- (a) the historical transaction amounts and the estimated transaction amount for the whole year of 2019;
- (b) the growth rate of the transaction amounts during the current term of the Framework Non-real Property Lease Expense Agreement;
- (c) the anticipated increase in the total transaction amount of the Product Sales Transaction for the years of 2020, 2021 and 2022 as the Group may require the use of some specialised equipment and machinery by leasing from the Hon Hai Group so as to carry out the Product Sales Transaction and other manufacturing projects; and
- (d) a buffer of approximately 10% to cater for any unforeseen changes in market conditions (including but not limited to an unexpected increase in consumer demand and/or unexpected increase in the cost of supply, where applicable).

3. *Consolidated Services and Sub-contracting Expense Transaction*

- (a) the historical transaction amounts and the estimated transaction amount for the whole year of 2019;
- (b) the growth rate of the transaction amounts during the current term of the Consolidated Services and Sub-contracting Expense Agreement;

LETTER FROM THE BOARD

- (c) the Group intends to engage the Hon Hai Group to provide more services under the Consolidated Services and Sub-contracting Expense Transaction (including but not limited to research and development services, and design services) to meet their production needs which can provide the Group with greater flexibility in cost-effective capacity planning and better cost control by not having to purchase additional equipment or recruit additional staff for manufacturing some customised products, in particular; and
- (d) a buffer of approximately 10% to cater for any unforeseen changes in market conditions (including but not limited to an unexpected increase in consumer demand and/or unexpected increase in the cost of supply, where applicable).

4. *Equipment Purchase Transaction*

- (a) the historical transaction amounts and the estimated transaction amount for the whole year of 2019;
- (b) the growth rate of the transaction amounts during the current term of the Framework Equipment Purchase Agreement;
- (c) it is expected that the Group may increase the purchase of equipment and machinery from the Hon Hai Group as some of the existing equipment and machinery of the Group need to be replaced and may need to purchase some specialised equipment and machinery for certain manufacturing processes; and
- (d) a buffer of approximately 10% to cater for any unforeseen changes in market conditions (including but not limited to an unexpected increase in consumer demand and/or unexpected increase in the cost of supply, where applicable).

5. *Product Sales Transaction*

- (a) the historical transaction amounts and the estimated transaction amount for the whole year of 2019;
- (b) the growth rate of the transaction amounts during the current term of the Framework Product Sales Agreement;
- (c) the Product Sales Transaction during the past two financial years more focused on customers who were independent third parties in an attempt to broaden the Group's customer base. It is expected that the total transaction amount of the Product Sales Transaction for the years of 2020, 2021 and 2022 will increase due to the expansion of the scope of the products of the Group to be sold to cover such products (including but not limited to materials and components, and finished goods generally) manufactured, owned or held (coupled with interest) by the Group that may be used in connection with or for the purposes of the businesses of the Hon Hai Group from time to time; and
- (d) a buffer of approximately 10% to cater for any unforeseen changes in market conditions (including but not limited to an unexpected increase in consumer demand and/or unexpected increase in the cost of supply, where applicable).

LETTER FROM THE BOARD

6. *Sub-contracting Income Transaction*

- (a) the historical transaction amounts and the estimated transaction amount for the whole year of 2019;
- (b) the growth rate of the transaction amounts during the current term of the Sub-contracting Income Agreement;
- (c) the Sub-contracting Income Transaction during the past two financial years was mostly entered into with customers who were independent third parties in an attempt to broaden the Group's customer base. It is expected that the total transaction amount of the Sub-contracting Income Transaction for the years of 2020, 2021 and 2022 will increase due to the expansion of the scope of the services to be provided by the Group to cover handset and in-mould labelling and other research and development services, handset and other design services and other services that may form part of or be provided as part of the businesses of the Hon Hai Group from time to time; and
- (d) a buffer of approximately 10% to cater for any unforeseen changes in market conditions (including but not limited to an unexpected increase in consumer demand and/or unexpected increase in the cost of supply, where applicable).

The Directors (including the independent non-executive Directors whose opinion has been set out in the letter from the Independent Board Committee of this circular) consider that the Proposed Annual Caps are fair and reasonable, the entering into of the Non-exempt Continuing Connected Transactions is in the Group's ordinary and usual course of business and the respective terms of the Non-exempt Continuing Connected Transactions (to be amended by the EGM Supplemental Agreements) are fair and reasonable, on normal commercial terms and in the interests of the Company and its Shareholders as a whole. (1) Mr. CHIH Yu Yang, an executive Director, who is a director of certain subsidiaries of Hon Hai; and (2) Mr. WANG Chien Ho, an executive Director, who is an employee of the Hon Hai Group, did abstain from voting on the Board's resolutions in relation to the Non-exempt Continuing Connected Transactions. Save as disclosed, no other Directors have to abstain from voting on the Board's resolutions in relation to the Non-exempt Continuing Connected Transactions.

INTERNAL CONTROL MEASURES

The Group has adopted the following internal control procedures over the continuing connected transactions of the Company including the Non-exempt Continuing Connected Transactions:

- 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.

LETTER FROM THE BOARD

- The Company has formulated and maintained a list of connected persons of the Company for the purpose of monitoring the connected transactions (including the Non-exempt Continuing Connected Transactions) and a copy of such list, together with a copy of each of the framework agreements and subsequent supplemental agreements for the continuing connected transactions, have been kept at the Group's headquarters accounting department, which is the department 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 headquarters accounting department of the Group collects the updated annual rolling forecast for each category of the continuing connected transactions (the "**CCT Rolling Forecast**") from the relevant operation departments of the Group every month and uses the CCT Rolling Forecast to calculate and monitor the estimated full-year transaction amount of each category of the continuing connected transactions at the Group's level. In relation to each category of the continuing connected transactions, the headquarters accounting department of the Group also compares the CCT Rolling Forecast with the pre-approved annual cap amount to check and see if there is any potential risk of the then estimated full-year transaction amount exceeding the corresponding annual cap amounts. When there is potentially a new transaction under the relevant category of the continuing connected transactions to be transacted between the Group and the Hon Hai Group, the chief financial officer of the Group (the "**Group CFO**") will inform the headquarters accounting department of the Group to ensure that such potential new transaction has been included in the relevant CCT Rolling Forecast and, if necessary, update such CCT Rolling Forecast based on the information regarding such potential new transaction then available for review by the Group CFO. When the relevant CCT Rolling Forecast indicates that the annual cap amounts relating to the relevant category of the continuing connected transactions may be exceeded, the headquarters accounting department of the Group will check the reasons and/or assumptions underlying the relevant CCT Rolling Forecast again, in consultation with the operation departments of the Group, and then report the same to the Group CFO. The Group CFO will then internally review and assess if the then existing pre-approved annual cap amounts will likely be exceeded, and if so, will initiate re-compliance with all the applicable requirements under the Listing Rules in respect of any revision of the then existing pre-approved annual cap amounts.
- The headquarters accounting department of the Group will consult with the Group's internal audit function in respect of continuing connected transaction compliance issues and report semi-annually to the Group CFO, normally before the Company's publication of the interim results and final results of the Group respectively in every financial year, and the Group CFO (in his own capacity and on behalf of the Group's management designated for the purposes of assisting the Board with the Group's enterprise risk management and internal controls) will semi-annually report to the audit committee of the Company (currently comprising all the independent non-executive Directors) and simultaneously, 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

LETTER FROM THE BOARD

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 properly implemented and operated and are adequate and effective to ensure that such transactions were so conducted. The audit committee will consider this accordingly.

- The Company's external auditor 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. According to Rule 14A.56 of the Listing Rules, the Company's external auditor will report its findings and conclusions (in the form of an independent assurance report) to the Board, whereas a copy thereof will be provided by the Company to the Stock Exchange.
- 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) semi-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 properly implemented and operated and are adequate and effective to ensure that such continuing connected transactions were so conducted and also conducted in accordance with the pricing policies set out in such relevant agreements.
- Please also refer to pages 164 and 165 of the Company's 2018 annual report (incorporating its 2018 corporate governance report) as issued and published on 9 April 2019.

LISTING RULES IMPLICATIONS

As mentioned above, Hon Hai is the ultimate controlling shareholder of the Company as at the Latest Practicable Date. Therefore, Hon Hai is a connected person of the Company. Accordingly, the transactions contemplated under the Continuing Connected Transactions entered into between the Group and the Hon Hai Group from time to time constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As at least one of the applicable percentage ratios (other than the profits ratio) in respect of the maximum amount of the Proposed Annual Caps, on an annual basis, is more than 5%, and each of the Proposed Annual Caps is more than HK\$10 million and in view of the connections between the Non-real Property Lease Expense Transaction and the Product Sales Transaction as more particularly disclosed in the section headed "Reasons and Benefits for the Non-exempt Continuing Connected Transactions" of this circular, each of the Non-exempt Continuing Connected Transactions constitutes a non-exempt continuing connected transaction for the Company under the Listing Rules. Accordingly, the Non-exempt Continuing Connected

LETTER FROM THE BOARD

Transactions, the Proposed Annual Caps and the EGM Supplemental Agreements are subject to the reporting, announcement, annual review and the approval of the Independent Shareholders requirements under Chapter 14A of the Listing Rules.

EGM

The Company will convene the EGM to seek the Independent Shareholders' approval for the Non-exempt Continuing Connected Transactions, the Proposed Annual Caps and the EGM Supplemental Agreements. As Hon Hai is a party to each of the EGM Supplemental Agreements, Hon Hai and its associates are required to and will abstain from voting on the resolutions to be proposed at the EGM for approving the above matters. At the EGM, votes will be taken by way of poll. As at the Latest Practicable Date, Hon Hai and its associates in aggregate are interested in 5,081,034,525 Shares, representing approximately 61.86% of the total number of issued shares of the Company.

RECOMMENDATIONS

The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, is of the view that (a) the Proposed Annual Caps are fair and reasonable; (b) the entering into of the Non-exempt Continuing Connected Transactions and the EGM Supplemental Agreements is in the Group's ordinary and usual course of business and, together with the Proposed Annual Caps, is in the interests of the Company and the Shareholders as a whole; and (c) the respective terms of the Non-exempt Continuing Connected Transactions (subject to obtaining the Independent Shareholders' approval, to be amended by the EGM Supplemental Agreements) are fair and reasonable, on normal commercial terms and in the interests of the Company and its Shareholders as a whole and, together with the bases of determining the Proposed Annual Caps, are fair and reasonable. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolutions to approve the Non-exempt Continuing Connected Transactions, the EGM Supplemental Agreements and the Proposed Annual Caps at the EGM.

GENERAL

Your attention is drawn to the letter from the Independent Board Committee, the letter from the Independent Financial Adviser, the additional information set out in the appendix to this circular and the notice of the EGM.

Yours faithfully,
By Order of the Board
CHIH Yu Yang
Acting Chairman



FIH Mobile Limited

富智康集團有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 2038)

14 November 2019

Dear Independent Shareholders,

**NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS —
EGM SUPPLEMENTAL AGREEMENTS
AND
PROPOSED ANNUAL CAPS**

We refer to the circular dated 14 November 2019 of the Company (the “**Circular**”) of which this letter forms part. Terms defined in the Circular bear the same meanings herein unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to advise you regarding the fairness and reasonableness of the Non-exempt Continuing Connected Transactions, the EGM Supplemental Agreements and the Proposed Annual Caps. Red Sun Capital Limited has been appointed as the independent financial adviser to advise us and the Independent Shareholders in this regard.

Having considered the respective terms of the Non-exempt Continuing Connected Transactions (subject to obtaining the Independent Shareholders’ approval, to be amended by the EGM Supplemental Agreements), the EGM Supplemental Agreements as well as the Proposed Annual Caps, and having taken into account the principal factors and reasons considered by, and the opinion of, Red Sun as stated in its letter dated 14 November 2019, we consider that (a) the Proposed Annual Caps are fair and reasonable; (b) the entering into of the Non-exempt Continuing Connected Transactions and the EGM Supplemental Agreements is in the Group’s ordinary and usual course of business and, together with the Proposed Annual Caps, is in the interests of the Company and the Shareholders as a whole; and (c) the respective terms of the Non-exempt Continuing Connected Transactions (subject to obtaining the Independent Shareholders’ approval, to be amended by the EGM Supplemental Agreements) are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole and, together with the bases of determining the Proposed Annual Caps, are fair and reasonable. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions proposed at the EGM approving the Non-exempt Continuing Connected Transactions, the EGM Supplemental Agreements and the Proposed Annual Caps.

We draw the attention of the Independent Shareholders to (i) the letter from the Board; (ii) the letter from the Independent Financial Adviser; and (iii) the appendix to the Circular.

Yours faithfully,

Independent Board Committee

Daniel Joseph MEHAN

Independent Non-executive Directors

LAU Siu Ki

TAO Yun Chih

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of the letter from the Independent Financial Adviser which sets out its advice to the Independent Board Committee and Independent Shareholders in connection with the Non-exempt Continuing Connected Transactions, the EGM Supplemental Agreements and the Proposed Annual Caps for inclusion in this circular.



红日资本有限公司
RED SUN CAPITAL LIMITED

14 November 2019

*To: The Independent Board Committee and the Independent Shareholders of
FIH Mobile Limited*

Dear Sirs,

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS — EGM SUPPLEMENTAL AGREEMENTS AND PROPOSED ANNUAL CAPS

I. INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Non-exempt Continuing Connected Transactions, the EGM Supplemental Agreements and the Proposed Annual Caps, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company (the “**Circular**”) to the Shareholders dated 14 November 2019, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

The Existing Agreements relating to the Non-exempt Continuing Connected Transactions (the “**NECCT Existing Agreements**”) will expire on 31 December 2019. The Board wishes to ensure the continuation of the on-going transactions of movable properties, products and services under the NECCT Existing Agreements. Accordingly, on the date of the Announcement, the Company entered into the EGM Supplemental Agreements with Hon Hai (among other things) to extend the current term of the NECCT Existing Agreements for a term of three years commencing from (and inclusive of) 1 January 2020.

As at the Latest Practicable Date, Hon Hai is the ultimate controlling shareholder of the Company. Therefore, Hon Hai is a connected person of the Company. As Hon Hai is a party to each of the EGM Supplemental Agreements, Hon Hai and its associates are required to and will abstain from voting on the resolutions to be proposed at the EGM for approving the Non-exempt Continuing Connected Transactions, the EGM Supplemental Agreements and the Proposed Annual Caps. As at the Latest Practicable Date, Hon Hai and its associates in aggregate are interested in 5,081,034,525 Shares, representing approximately 61.86% of the total number of issued shares of the Company.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

II. THE INDEPENDENT BOARD COMMITTEE

The Board currently comprises Mr. CHIH Yu Yang (Acting Chairman and Chief Executive Officer), Mr. WANG Chien Ho and Dr. KUO Wen-Yi as executive Directors; and Mr. LAU Siu Ki, Dr. Daniel Joseph MEHAN and Mr. TAO Yun Chih as independent non-executive Directors.

The Independent Board Committee comprising all the independent non-executive Directors has been formed to advise the Independent Shareholders regarding (among other things) the fairness and reasonableness of the Non-exempt Continuing Connected Transactions, the EGM Supplemental Agreements and the Proposed Annual Caps.

We, Red Sun, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in these respects and to give our opinion and recommendation in relation to the Non-exempt Continuing Connected Transactions, the EGM Supplemental Agreements and the Proposed Annual Caps, for the Independent Board Committee's consideration when making its recommendation to the Independent Shareholders and also for the Independent Shareholders' consideration.

III. OUR INDEPENDENCE

As at the Latest Practicable Date, we did not have any relationship with or interest in the Company or any other parties that could reasonably be regarded as relevant to our independence. In the previous two years, we did not act as independent financial adviser to the Company under the Listing Rules.

Apart from the normal advisory fee payable to us in connection with our appointment as the Independent Financial Adviser, no arrangement exists whereby we have received or will receive any fees or benefits from the Company or any other parties that could reasonably be regarded as relevant in assessing our independence, in each case in connection with the matters contemplated by this letter. Accordingly, we consider that we are independent pursuant to Rule 13.84 of the Listing Rules.

IV. BASIS AND ASSUMPTIONS OF OUR ADVICE

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Company, the Directors and the management of the Company (the "**Management**"). We have assumed that all statements, information, opinions and representations contained or referred to in the Circular, which have been provided by the Company, the Directors and the Management, were true and accurate in all material respects at the time they were made and continue to be so as at the Latest Practicable Date.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Directors jointly and severally accept full responsibility for the accuracy in all material respects of the statements, information and representations contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular have been reasonably arrived at after due and careful consideration and there are no other material facts not contained in the Circular the omission of which would make any statement in the Circular misleading. We consider that we have been provided with sufficient information in order to form a reasonable basis for our opinion and recommendation. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any facts or circumstances which would render the information provided and representations made to us untrue, inaccurate or misleading in any material respect. We consider that we have performed all necessary steps to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinion and recommendation.

We have not, however, conducted any independent verification of the information provided by the Directors and the Management, nor have we conducted independent investigation into the business and affairs or future prospects of the Group, the Hon Hai Group and their respective associates.

This letter is issued for the Independent Board Committee and the Independent Shareholders solely in connection with their consideration in relation to the Non-exempt Continuing Connected Transactions, the EGM Supplemental Agreements and the Proposed Annual Caps, and except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

V. BACKGROUND

In arriving at our opinion and recommendation in respect of the Non-exempt Continuing Connected Transactions, the EGM Supplemental Agreements, and the Proposed Annual Caps, we have taken into consideration the following principal factors and reasons:

Principal business activities and the financial information of the Group

The Group is a vertically integrated manufacturing service provider offering a comprehensive range of end-to-end components and manufacturing and engineering services to its customers in respect of handsets and other wireless communication devices and consumer electronic products, including unique and innovative product development and design, casings (the casings may be sold to customers or used to manufacture complete handsets for delivery to customers), components, PCBA (Printed Circuit Board Assembly), full-system assembly etc., and supply chain services and solution, and repair and other after-sales services which are located close to the customers. In addition to handsets, the Group is engaged in the manufacturing of other wireless communication devices and consumer electronic products and accessories and related areas, such as e-Readers, tablets and voice interaction products.

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Set out below is a summary of the Group’s operating results by geographic segments, extracted from (i) the published annual report of the Company for the year ended 31 December 2018 (the “**2018 Annual Report**”); and (ii) the latest published interim report of the Company for the six months ended 30 June 2019 (the “**2019 Interim Report**”):

Summary of the Group’s operating results by geographical information:

	For the six months ended 30 June		For the year ended 31 December	
	2019	2018	2018	2017
	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>	<i>US\$’000</i>
	(unaudited)	(unaudited)	(audited)	(audited)
Revenue by geographic location	6,389,177	6,563,291	14,929,903	12,080,110
— Asia	5,346,674	5,567,823	11,770,631	10,241,720
— Europe	556,802	925,458	2,025,658	1,647,937
— America	485,701	70,010	1,133,614	190,453
Loss for the period/year	(83,839)	(348,567)	(857,115)	(525,394)

The Group recorded a revenue of approximately US\$12.1 billion and US\$14.9 billion for the years ended 31 December 2017 and 2018, respectively, representing a year-on-year increase of approximately US\$2.8 billion or 23.1%. According to the 2018 Annual Report, the growth was mainly attributable to the Group’s continuous development and penetration of the PRC and international brand customers and efforts to expand production capacity in India and the entering into collaboration with a U.S.-based internet customer.

The Group recorded loss for the year of approximately US\$0.5 billion and US\$0.9 billion for the years ended 31 December 2017 and 2018, respectively, representing a year-on-year increase of approximately US\$0.4 billion or 80.0%. According to the 2018 Annual Report, the Group’s net loss was primarily attributable to various factors, including the following: (1) the challenging conditions faced by the Group in the second half of 2017 persisted in 2018; (2) pressure on the Group’s gross margins continued; (3) increase in the expenses relating to the continuous growth of the Group’s IIDM (Integration, Innovation, Design, Manufacture) business (including ancillary logistics and distribution services); (4) increase in the Group’s foreign exchange loss; (5) substantial impairment losses relating to the Group’s goodwill and interests in associates; (6) fair value loss on convertible notes; and (7) a substantial loss arising from the change in fair value of the Group’s investments in certain listed companies.

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The Group recorded a revenue of approximately US\$6.6 billion and US\$6.4 billion for the six months ended 30 June 2018 and 2019, respectively, representing a period-on-period decrease of approximately US\$0.2 billion or 3.0%.

The Group recorded loss for the period of approximately US\$0.3 billion and US\$0.1 billion for the six months ended 30 June 2018 and 2019, respectively, representing a period-on-period decrease of approximately US\$0.2 billion or 66.7%. According to the 2019 Interim Report, the Group's net loss was primarily attributable to various factors, including the following: (1) the challenging conditions that the Group has faced since late 2017 having continued through 2018 into 2019; (2) continued pressure on the Group's gross margins generally and the first half of 2019 gross profit margin was 0.68% (compared with a gross loss margin of around 0.53% for the first half of 2018); and (3) regarding the Group's cessation of its logistics and distribution business from 1 January 2019, such cessation has worsen the Group's gross profit as the Group lost distribution income (grouped under revenue) that would otherwise be generated from that business (sales income from that business for the year ended 31 December 2018 totalled around US\$61.77 million); on the flip side, those selling expenses which were incurred to generate distribution income reduced and as a whole the Group's selling expenses were US\$7.9 million for the first half of 2019 (compared with selling expenses of US\$60.9 million for the first half of 2018).

Principal business activities of the Hon Hoi Group

The Hon Hoi Group is the leading global manufacturing service provider in the 3C industries.

As set out in the annual report of the Hon Hoi Group for the year ended 31 December 2018, its total revenue of approximately NTD4,706.7 billion and NTD5,293.8 billion for the years ended 31 December 2017 and 2018, respectively, representing a year-on-year increase of approximately 12.5%. Also, the Hon Hoi Group recorded profit for the year of approximately NTD135.4 billion and NTD129.8 billion for the years ended 31 December 2017 and 2018, respectively, representing a year-on-year slight decrease of approximately NTD5.6 billion or 4.1%.

As set out in the interim report of the Hon Hoi Group for the six months ended 30 June 2019, its total revenue of approximately NTD2,108.1 billion and NTD2,214.1 billion for the six months ended 30 June 2018 and 2019, respectively, representing a period-on-period increase of approximately 5.0%. Also, the Hon Hoi Group recorded profit for the period of approximately NTD41.4 billion and NTD42.2 billion for the six months ended 30 June 2018 and 2019, respectively, representing a period-on-period slight increase of approximately NTD0.8 billion or 1.9%.

VI. PRINCIPAL FACTORS AND REASONS CONSIDERED

Reasons and benefits for the Non-exempt Continuing Connected Transactions

The Group and the Hon Hai Group have been carrying out the Continuing Connected Transactions to facilitate their respective businesses and operations from time to time. In general, in view of the long-established relationship and connections between the Group and the Hon Hai Group and the global geographical convenience and proximity between the Group and the Hon Hai Group offering (among other things) efficient, convenient and timely communication and coordination between the parties to the transactions contemplated by each category of the Continuing Connected Transactions, the relevant Continuing Connected Transactions provide a reliable, timely and efficient supply of materials, components and other products and provision of services in support of the Group's daily business operations, which are favourable to the Group's effective control and management over the product procurement, performance and quality, timeliness, production, facilities, capacities, expenditures, supply chain and after-sales services, whereas the relevant Continuing Connected Transactions generate more income for the Group and enhance the utilisation and management of the Group's assets and services. In particular, the continuous entering into of the Continuing Connected Transactions between the Group and the Hon Hai Group from time to time can effectively lower the operation risks of both the Group and the Hon Hai Group mutually, and is favourable to the Group's daily business operations on an on-going basis.

In addition and without prejudice to the generality of the foregoing, the reasons and benefits for entering into and carrying out each of the Non-exempt Continuing Connected Transactions are set out below:

1. 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.

2. Non-real Property Lease Expense Transaction

In carrying out the Product Sales Transaction and other manufacturing projects, the Group may require the use of the Non-real Properties (including but not limited to specialised equipment and machines). By leasing such Non-real Properties from the Hon Hai Group, the Group may gain access to the use of such Non-real Properties at rental rates agreeable to the Company saving capital expenditures.

3. 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.

4. 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 the Hon Hai Group'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.

5. 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.

6. Sub-contracting Income 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 Sub-contracting Income Transaction as long as the services are provided at prices that are fair and reasonable pursuant to the Sub-contracting Income Agreement.

Our analysis

Having considered that (i) the Hon Hai Group is the leading global manufacturing service provider in the 3C industries; (ii) the Group's principal business activities in the provision of a wide range of manufacturing services for handset industry worldwide; (iii) the carrying out of the Non-exempt Continuing Connected Transactions is to facilitate the respective businesses and operations of the Group and the Hon Hai Group from time to time, we concur with the Management that the entering into of the relevant Non-exempt Continuing Connected Transactions which would further enhance the Group's revenue, cost-effectiveness and flexibility and the utilisation and management of the Group's assets and services, thereby, is beneficial to the Company and its Shareholders as a whole.

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Principal terms and conditions governing the Non-exempt Continuing Connected Transactions

Set out below are the principal terms and conditions governing the Non-exempt Continuing Connected Transactions together with the NECCT Existing Agreements and the EGM Supplemental Agreements:

(A) *Purchase of products or services, lease of movable properties or purchase of equipment from the Hon Hai Group by the Group*

1. Purchase Transaction

Pursuant to the Purchase Agreement, the Group has agreed to purchase materials and components that may be used in the handset manufacturing services business of the Group from the Hon Hai Group for a term up to 31 December 2019 upon and subject to the terms and conditions set out therein.

On the date of the Announcement, the Company and Hon Hai entered into the Supplemental Purchase Agreement, which will become effective only after the passing of the resolutions in respect of the Supplemental Purchase Agreement by the Independent Shareholders at the EGM, to amend certain terms of the Purchase Agreement. Pursuant to the Supplemental Purchase Agreement, (i) the scope of the products as the subject matter to be purchased under the Purchase Agreement will be expanded to cover such products (including but not limited to materials and components, tooling, light-guides, and finished goods generally) manufactured, owned or held (coupled with interest) by the Hon Hai Group that may be used in connection with or for the purposes of the businesses of the Group from time to time as well as such other products (including but not limited to any materials and components) as may be agreed between the Group and the Hon Hai Group from time to time, and in this respect, the scope of the aforesaid materials and components will be expanded to cover die-casting parts, flexible PCBs (printed circuit boards), PCBs, display/touch modules, heat sinks, work-in-progress generally and other materials and components that may be used in connection with or for the purposes of the businesses of the Group from time to time as well as such other materials and/or components as may be agreed between the Group and the Hon Hai Group from time to time; and (ii) the current term of the Purchase Agreement will be extended for three years from 1 January 2020 to 31 December 2022 (both dates inclusive).

For details of the pricing terms for the Purchase Transaction, please refer to the sub-heading “Pricing Terms for the Purchase Transaction” in the Letter from the Board.

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 (as the case may be).

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These payment terms were usually adopted by the Group in its transactions with independent third parties or the Hon Hai Group. Such terms are on normal commercial terms and not more favourable than those offered by the Group to independent third parties.

2. Non-real Property Lease Expense Transaction

Pursuant to the Framework Non-real Property Lease Expense Agreement, the Group has agreed to lease the Non-real Properties from the Hon Hai 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.

On the date of the Announcement, the Company and Hon Hai entered into the Supplemental Non-real Property Lease Expense Agreement, which will become effective only after the passing of the resolutions in respect of the Supplemental Non-real Property Lease Expense Agreement by the Independent Shareholders at the EGM, to extend the current term of the Framework Non-real Property Lease Expense Agreement for three years from 1 January 2020 to 31 December 2022 (both dates inclusive).

For details of the pricing terms for the Non-real Property Lease Expense Transaction, please refer to the sub-heading “Pricing Terms for the Non-real Property Lease Expense Transaction” in the Letter from the Board.

The rental under the Non-real Property Lease Expense Transaction will be payable by the Group to the Hon Hai Group within such period(s) agreed by the relevant parties from time to time on a case-by-case basis and is expected to be usually payable within 90 days after the date of the relevant invoice or the Group’s accounting record posting date for the Non-real Property Lease Expense Transaction (as the case may be).

These payment terms were usually adopted by the Group in its transactions with independent third parties or the Hon Hai Group. Such terms are on normal commercial terms and not more favourable than those offered by the Group to independent third parties.

3. Consolidated Services and Sub-contracting Expense Transaction

Pursuant to the Consolidated Services and Sub-contracting Expense Agreement, the Hon Hai Group has agreed to provide certain services (including but not limited to research and development services, design services, repair services and sub-contracting services) to the Group for a term up to 31 December 2019 upon and subject to the terms and conditions set out therein.

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On the date of the Announcement, the Company and Hon Hai entered into the Supplemental Consolidated Services and Sub-contracting Expense Agreement, which will become effective only after the passing of the resolutions in respect of the Supplemental Consolidated Services and Sub-contracting Expense Agreement by the Independent Shareholders at the EGM, to extend the current term of the Consolidated Services and Sub-contracting Expense Agreement for three years from 1 January 2020 to 31 December 2022 (both dates inclusive).

For details of the pricing terms for the Consolidated Services and Sub-contracting Expense Transaction, please refer to the sub-heading “Pricing Terms for the Consolidated Services and Sub-contracting Expense Transaction” in the Letter from the Board.

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 (as the case may be).

These payment terms were usually adopted by the Group in its transactions with independent third parties or the Hon Hai Group. Such terms are on normal commercial terms and not more favourable than those offered by the Group to independent third parties.

4. Equipment Purchase Transaction

Pursuant to the Framework Equipment Purchase Agreement, the Group has agreed to purchase equipment that may be used in the Group’s handset manufacturing services business from the Hon Hai Group from time to time for a term up to 31 December 2019 upon and subject to the terms and conditions set out therein.

On the date of the Announcement, the Company and Hon Hai entered into the Supplemental Equipment Purchase Agreement, which will become effective only after the passing of the resolutions in respect of the Supplemental Equipment Purchase Agreement by the Independent Shareholders at the EGM. Pursuant to the Supplemental Equipment Purchase Agreement, (i) the scope of the equipment as the subject matter to be purchased under the Framework Equipment Purchase Agreement will be expanded to cover baking and coating lines and other equipment that is manufactured, owned or held (coupled with interest) by the Hon Hai Group which may be used in connection with or for the purposes of the Group’s businesses from time to time (including but not limited to new equipment that is manufactured or purchased or procured from third parties by the Hon Hai Group, and used equipment that has previously been used by the Hon Hai Group) as well as such other equipment as may be agreed between the Hon Hai Group and the Group from time to time; and (ii) the current term of the Framework Equipment Purchase Agreement will be extended for three years from 1 January 2020 to 31 December 2022 (both dates inclusive).

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For details of the pricing terms for the Equipment Purchase Transaction, please refer to the sub-heading “Pricing Terms for the Equipment Purchase Transaction” in the Letter from the Board.

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

These payment terms were usually adopted by the Group in its transactions with independent third parties or the Hon Hai Group. Such terms are on normal commercial terms and not more favourable than those offered by the Group to independent third parties.

(B) Sale of products or services to the Hon Hai Group by the Group

5. 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.

On the date of the Announcement, the Company and Hon Hai entered into the Supplemental Product Sales Agreement, which will become effective only after the passing of the resolutions in respect of the Supplemental Product Sales Agreement by the Independent Shareholders at the EGM, to amend certain terms of the Framework Product Sales Agreement. Pursuant to the Supplemental Product Sales Agreement, (i) the scope of the products as the subject matter to be sold under the Framework Product Sales Agreement will be expanded to cover such products (including but not limited to materials and components, tooling, light-guides and finished goods generally) manufactured, owned or held (coupled with interest) by the Group that may be used in connection with or for the purposes of the businesses of the Hon Hai Group from time to time as well as such other products (including but not limited to any materials and components) as may be agreed between the Group and the Hon Hai Group from time to time, and in this respect, the scope of the aforesaid materials and components will be expanded to cover die-casting parts, flexible PCBs (printed circuit boards), PCBs, display/touch modules, heat sinks, work-in-progress generally and other materials and components that may be used in connection with or for the purposes of the businesses of the Hon Hai Group from time to time as well as such other materials and/or components as may be agreed between the Group and the Hon Hai Group from time to time; and (ii) the current term of the Framework Product Sales Agreement will be extended for three years from 1 January 2020 to 31 December 2022 (both dates inclusive).

For details of the pricing terms for the Product Sales Transaction, please refer to the sub-heading “Pricing Terms for the Product Sales Transaction” in the Letter from the Board.

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

These payment terms were usually adopted by the Group in its transactions with independent third parties or the Hon Hai Group. Such terms are on normal commercial terms and not more favourable than those offered by the Group to independent third parties.

6. *Sub-contracting Income Transaction*

Pursuant to the Sub-contracting Income Agreement, the Hon Hai Group has agreed to engage the Group to provide certain services (such as molding, metal stamping for handsets and desktop computers, handset repair services and other services) to the Hon Hai Group for a term up to 31 December 2019 upon and subject to the terms and conditions set out therein.

On the date of the Announcement, the Company and Hon Hai entered into the Supplemental Sub-contracting Income Agreement, which will become effective only after the passing of the resolutions in respect of the Supplemental Sub-contracting Income Agreement by the Independent Shareholders at the EGM, to amend certain terms of the Sub-contracting Income Agreement. Pursuant to the Supplemental Sub-contracting Income Agreement, (i) the scope of the services as the subject matter to be provided under the Sub-contracting Income Agreement will be expanded to cover handset and in-mould labelling research and development and other research and development services; handset and other design services; handset and mould and other repair services; molding, electroplating, metal stamping for handsets and desktop computers and other services that may form part of or be provided as part of the businesses of the Hon Hai Group from time to time; the use of technical equipment and facilities owned or leased by the Group to support the foregoing; the provision of personnel and other resources as may be required to support the foregoing; and such other services and/or sub-contracting as may be agreed between the Hon Hai Group and the Group from time to time; and (ii) the current term of the Sub-contracting Income Agreement will be extended for three years from 1 January 2020 to 31 December 2022 (both dates inclusive).

For details of the pricing terms for the Sub-contracting Income Transaction, please refer to the sub-heading “Pricing Terms for the Sub-contracting Income Transaction” in the Letter from the Board.

Payment for the Sub-contracting Income Transaction is usually received by the Group within 90 days after the date of the relevant invoice.

These payment terms were usually adopted by the Group in its transactions with independent third parties or the Hon Hai Group. Such terms are on normal commercial terms and not more favourable than those offered by the Group to independent third parties.

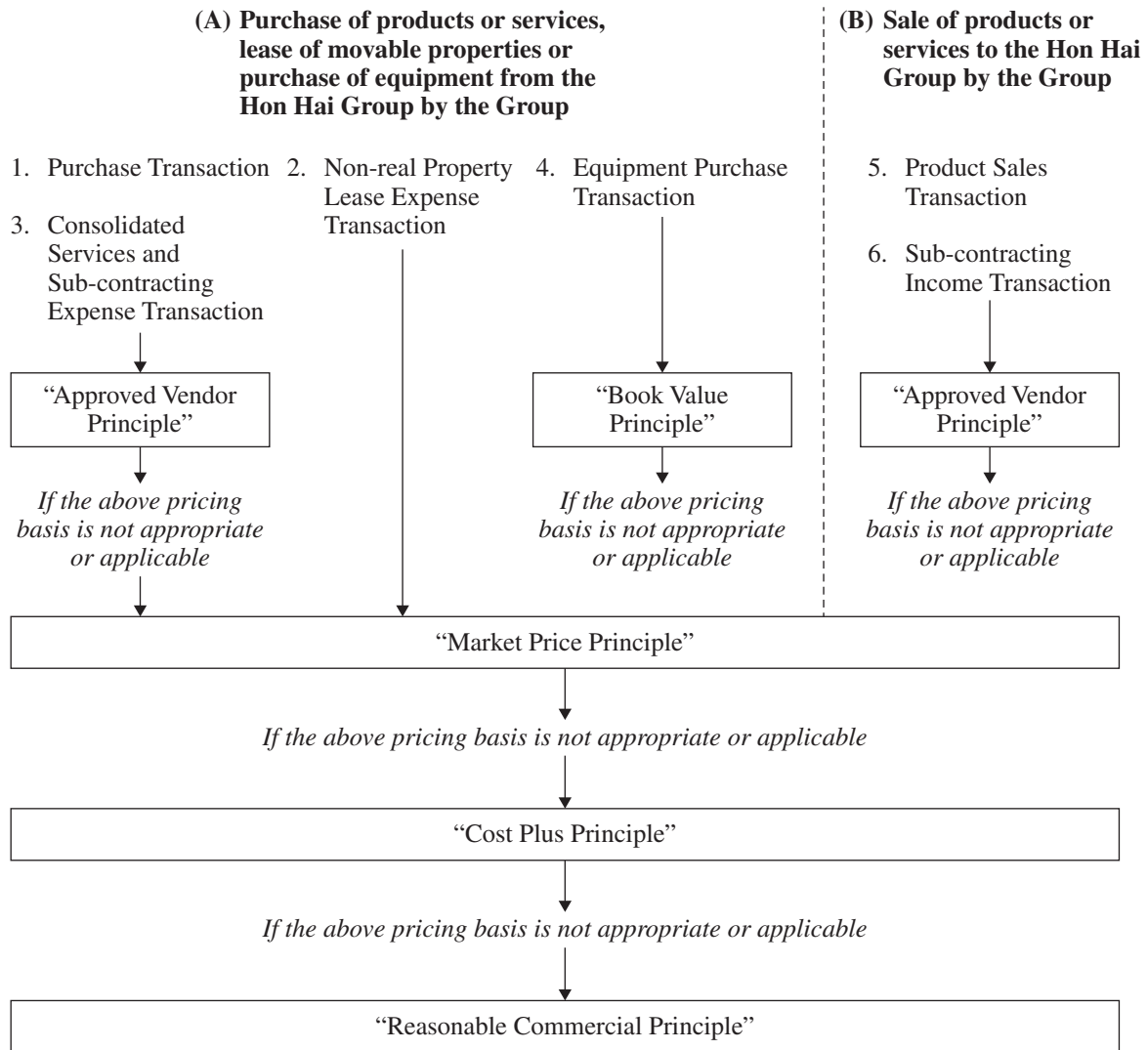
Pricing Terms for the Non-exempt Continuing Connected Transactions

The EGM Supplemental Agreements are meant (among other things) to extend the current term and the expiry of each of the NECCT Existing Agreements up to 31 December 2022, subject to the approval of the Independent Shareholders at the EGM. In summary, we noted that there are five kinds of principles applicable to the determination of the pricing of the Non-exempt Continuing Connected Transactions. In respect of the pricing bases set out in the below chart, we are advised by the Management that the pricing bases adopted under the Non-exempt Continuing Connected Transactions may vary from case to case given the difference in the nature of the individual transactions.

- (a) The Group conducts business transactions from time to time with customers who approve or otherwise designate the Hon Hai Group as the Approved Vendors when these customers place their orders with the Group (the “**Approved Vendor Principle**”). In respect of the materials/components(/other products) designated to be purchased from the Hon Hai Group, the Group is not allowed to source them from other suppliers. The Group will confirm the pricing terms of the order placed to the Group, and will take into account the cost of purchasing such materials/components(/other products) from the Hon Hai Group as designated by the customer when deciding on whether to take up such order from the customer. The Group has the discretion to agree only to take up the order from the customer if it is profitable to do so, after taking into account the cost of purchasing such materials/components(/other products) from the Hon Hai Group as separately agreed between the customer and the Hon Hai Group.
- (b) Similar to (a) above under the circumstances where customers of the Group approve or otherwise designate the Hon Hai Group as the Approved Vendors, where the Group has been approved or otherwise designated by such customer of the Hon Hai Group as a supplier of parts or other products, the Group shall directly negotiate and agree the pricing terms of the parts or other products with such customer (without the direct involvement of the Hon Hai Group).
- (c) For the Equipment Purchase Transaction, the price shall make reference to the book value of the equipment according to the accounting records of the relevant member of the Hon Hai Group (the “**Book Value Principle**”).
- (d) For the market price principle, the average market price shall make reference to the price or quotation of comparable transactions with independent third parties (the “**Market Price Principle**”).
- (e) For the cost plus principle, the price shall make reference to the percentage margin of comparable transactions with independent third parties (the “**Cost Plus Principle**”).

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(f) For the reasonable commercial principle, the price shall take into account factors applicable to the special circumstances on a case by case basis (the “**Reasonable Commercial Principle**”), such as inventory optimisation management, Non-real Properties utilisation management, capacity utilisation management and equipment utilisation management.



For our assessment, we have randomly sampled and reviewed 24 sets of transaction documents (the “**NECCT Samples**”) comprising four sets of transaction documents in respect of each category of the Non-exempt Continuing Connected Transactions carried out during the period from 1 January 2018 up to 30 June 2019 (the “**Review Period**”). In addition to the NECCT Samples, we randomly selected and reviewed 20 sets of transaction documents comprising at least three sets of transaction documents between a member of the Group with any independent third parties (the “**I3P Samples**”, together with the NECCT Samples, the “**Samples**”) in respect of each category of the Non-exempt Continuing Connected Transactions, which were applied to the same pricing terms as the NECCT Samples. The Samples comprise of:

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- (i) invoice, purchase orders, cost/price calculation sheets and relevant supporting documents under the Purchase Transaction (to purchase materials and components from the Hon Hai Group/independent third parties);
- (ii) lease contracts, invoice, cost/price calculation sheets and relevant supporting documents under the Non-real Property Lease Expense Transaction (to lease Non-real Properties from the Hon Hai Group/independent third parties);
- (iii) invoice, cost/price calculation sheets and relevant supporting documents under the Consolidated Services and Sub-contracting Expense Transaction (to procure services from the Hon Hai Group/independent third parties);
- (iv) invoice, purchase orders, cost/price calculation sheets and relevant supporting documents under the Equipment Purchase Transaction (to purchase equipment from the Hon Hai Group/independent third parties);
- (v) invoice, purchase orders and relevant supporting documents under the Product Sales Transaction (to sell parts or other products to the Hon Hai Group/independent third parties); and
- (vi) invoice, sales orders and relevant supporting documents under the Sub-contracting Income Transaction (to provide certain services, handset repair services and other services to the Hon Hai Group/independent third parties).

We consider the Review Period to be a suitable timeframe to enable us to assess the relatively current application of pricing policies and the relatively current internal control measures of the Group in practice. We summarised our work done as follows:

(a) The Approved Vendor Principle under the Purchase Transaction

We have reviewed two NECCT Samples and two I3P Samples which adopted the Approved Vendor Principle and are advised by the Management that before confirming whether to procure materials from the Hon Hai Group/independent third parties, the Group would assess the benefits of manufacturing products for the customer with, among others, the materials procured from the Hon Hai Group/independent third parties. The cost of procuring materials from the Approved Vendors is beyond the Group's control.

It is the Group's decision to determine whether the sales to the customers represent a profitable transaction whilst the Group has no influence on the price of supply payable to the Hon Hai Group/independent third parties pursuant to the Approved Vendor Principle. The pricing terms of materials are directly negotiated and agreed between the Hon Hai Group/independent third parties and the Group's customers (without the direct involvement of the Group).

We note from the relevant I3P Samples which adopted the Approved Vendor Principle that the pricing terms are equally applicable to transactions with independent third parties.

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Given that the Group has no influence on the price of supply payable to the Hon Hai Group/independent third parties under the Approved Vendor Principle and the Approved Vendor Principle for the procurements from the Hon Hai Group is not different from that for the procurements from independent third parties, we consider that the Company has followed the Approved Vendor Principle.

(b) The Market Price Principle under the Purchase Transaction, Consolidated Services and Sub-contracting Expense Transaction, Equipment Purchase Transaction and Product Sales Transaction

Based on our review of five NECCT Samples and 12 I3P Samples which adopted the Market Price Principle and also based on our review and discussions with the Management, we understand that the Group obtained at least one historical independent transaction (which is concluded after considering at least two quotations from independent third parties) or two quotations from independent third parties within three months of the transaction with the Hon Hai Group/another independent third party, respectively to provide reference on the market price. Based on our review of the NECCT Samples and the I3P Samples, we note that the prices indicated on the invoices of the NECCT Samples or the I3P Samples made reference to the prices indicated on at least one comparable invoice of historical independent transaction or two quotations from independent third parties. We also note from the invoices of the NECCT Samples and the I3P Samples that the prices were consistent with or within the range of the prices for the comparable historical independent transactions or quotations from independent third parties as demonstrated in the comparable invoices or quotations. We consider it reasonable for the Group to make reference to historical independent transactions to the extent they are available within a reasonable timeframe.

We noted that the prices payable (together with the payment terms) to the Hon Hai Group under the Purchase Transaction, Consolidated Services and Sub-contracting Expense Transaction and Equipment Purchase Transaction were no less favourable as compared with the prices (together with the payment terms) set out in the historical independent transactions/quotations obtained from independent third parties in the NECCT Samples.

We also note that the prices received (together with the payment terms) from the Hon Hai Group under the Product Sales Transaction were no less unfavourable as compared with the prices (together with the payment terms) set out in the historical transactions/quotations obtained from independent third parties in the NECCT Samples.

We note from the relevant I3P Samples which adopted the Market Price Principle that the pricing terms are equally applicable to transactions with independent third parties.

Accordingly, we consider that the Company has followed the Market Price Principle.

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(c) The Cost Plus Principle under the Non-real Property Lease Expense Transaction, Consolidated Services and Sub-contracting Expense Transaction, Product Sales Transaction and Sub-contracting Income Transaction

We have reviewed 14 NECCT Samples and 6 I3P Samples in respect of the Cost Plus Principle. Based on our review and our discussions with the Management, we note that the pricing base is determined with reference to the percentage margin of comparable historical transactions with independent third parties.

We understand from the Management that the Group normally selects one independent comparable transaction within three months of the proposed transaction with the Hon Hai Group/another independent third party to determine the current reasonable market margin. For the Non-real Property Lease Expense Transaction, Consolidated Services and Sub-contracting Expense Transaction and Product Sales Transaction, the Group would ensure that the margins agreed with the Hon Hai Group are no less favourable than the margin evidenced by the independent comparable transaction. For the Sub-contracting Income Transaction, the Group would ensure that the margins earned by the Group for the proposed transaction with the Hon Hai Group are no less favourable than the margin evidenced by the independent comparable transaction. Based on our review of the NECCT Samples and the I3P Samples, we note that the prices indicated on the invoices of the NECCT Samples or the I3P Samples made reference to the prices indicated on the invoices of independent comparable transactions. We have also reviewed the cost/price calculation sheets indicating the selling price, cost and margin of both the NECCT Samples or the I3P Samples and the independent comparable transactions. We note from the invoices and the cost/price calculation sheets of the NECCT Samples and the I3P Samples that the margin agreed with the Hon Hai Group was no less favourable than the margin for the independent comparable transactions. Given the specific nature of the subject product/service underlying these categories of the Non-exempt Continuing Connected Transactions, we consider the selection of one independent comparable transaction from an independent party from a recent period to be fair and reasonable. The Group will select one independent transaction (as closely related to the subject service/material/component(/other product) in nature as possible) within six months of the proposed transaction with the Hon Hai Group to determine the margin pursuant to the pricing terms of the NECCT Existing Agreements.

We understand from the Management that in the event no independent comparable transaction is available, the Group's accounting department would review the proposed transaction based on its past experience and public information on the market, if available. The Company would conduct a comparison between (i) the fee quotation obtained from the independent third parties; and (ii) the offers to the Hon Hai Group. In some cases, depending on the nature of the subject transaction, the margins under the Cost Plus Principle will be determined after arm's length negotiations with the Hon Hai Group, which take into account, among other factors, the prevailing market price, production capabilities and optimal utilisation of resources of the Group.

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We note from the relevant I3P Samples which adopted the Cost Plus Principle that the pricing terms are equally applicable to transactions with independent third parties.

Based on our review of the relevant NECCT Samples, we note that the cost margin of sales to the Hon Hai Group is substantiated to be no less favourable than that available from the independent comparable transaction. Given that the margins with the Hon Hai Group are determined with reference to and are no less favourable than the margins available from independent third parties, we consider the Cost Plus Principle to be fair and reasonable.

(d) The Book Value Principle under the Equipment Purchase Transaction

Based on our review of the three NECCT Samples, we note that the prices payable to the Hon Hai Group are determined with reference to the book values according to the Hon Hai Group's accounting records and substantiated in the NECCT Samples.

As discussed with the Management, we understand that such principle is applied mainly for used equipment. We consider the Book Value Principle to be fair and reasonable having considered that the book value of the Hon Hai Group's equipment is recorded in accordance with the International Financial Reporting Standards.

Our analysis

Having considered that (i) the Group's intention to cooperate with the Hon Hai Group; (ii) the Non-exempt Continuing Connected Transactions will be beneficial to both the Group and the Hon Hai Group in order to facilitate their respective businesses and operations from time to time; and (iii) the pricing basis, in particular, the pricing terms shall follow the pricing procedure, which also applies to the transactions with independent third parties, we concur with the Directors' view that the Non-exempt Continuing Connected Transactions and the EGM Supplemental Agreements are entered into in the ordinary and usual course of business of the Group, the terms of which are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Internal Control Measures

Set out below is an extract of the internal control procedures adopted by the Company over the continuing connected transactions of the Company, including the Non-exempt Continuing Connected Transactions, details of the internal control procedures are set out in the Letter from the Board:

- (i) 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.
- (ii) The Company has formulated and maintained a list of connected persons of the Company for the purpose of monitoring the connected transactions (including the Non-exempt Continuing Connected Transactions), which has been kept at the Group's headquarters accounting department being the department 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.
- (iii) The headquarters accounting department of the Group will consult with the Group's internal audit function in respect of continuing connected transaction compliance issues and report semi-annually to the chief financial officer of the Group (the "**Group CFO**"), and the Group CFO (in his own capacity and on behalf of the Group's management designated for the purposes of assisting the Board with the Group's enterprise risk management and internal controls) will semi-annually report to the audit committee of the Company (currently comprising all the independent non-executive Directors) and simultaneously 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 properly implemented and operated and are adequate and effective to ensure that such transactions were so conducted. The audit committee will consider this accordingly.
- (iv) The Company's external auditor will review the relevant continuing connected transactions annually to check and confirm (among others) whether the pricing terms have been adhered to and whether the relevant caps have been exceeded.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (v) The independent non-executive Directors will review the relevant continuing connected transactions of the Company semi-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 properly implemented and operated and are adequate and effective to ensure that such continuing connected transactions were so conducted and also conducted in accordance with the pricing policies set out in such relevant agreements.

Conclusion

We have reviewed an internal report of the Company issued in July 2019 which sets out, amongst others, the internal control policies and measures implemented by the Company to provide an effective framework for better corporate governance and enterprise risk management and monitor the continuing connected transactions between the Group and the Hoi Hai Group. We note that the Group has implemented its internal control procedures to ensure that the terms offered by connected persons of the Company are no less favourable than those available to or from independent third parties (as the case may be) and any continuing connected transaction of the Company should be conducted in accordance with the pricing policies under the respective continuing connected transaction framework agreements. Pursuant to the internal control measures and policies of the Company, the Group's internal audit department is responsible to review the internal control functions of the Group relating to its continuing connected transactions from time to time. The Group's accounting department is primarily responsible to review and monitor transactions between the Group and the Hon Hai Group as to whether such transactions fall within the scope of the relevant agreements and that the annual caps are not exceeded.

Based on the above and having considered the internal control procedures adopted by the Company, we concur with the view of the Directors that the procedures the Company adopted are considered to be efficient and adequate to govern the future execution of such continuing connected transactions of the Company, which will continue to be conducted on terms that are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Basis for determining the Proposed Annual Caps

The table below sets out (1) the historical actual amounts of each of the above categories of the Non-exempt Continuing Connected Transactions for the two years ended 31 December 2018 and for the nine months ended 30 September 2019; (2) the existing annual caps of each of the Non-exempt Continuing Connected Transactions for the year ending 31 December 2019; and (3) the Proposed Annual Caps:

	Actual transaction amounts			Existing	Proposed Annual Caps			
	For the year ended 31 December 2017 (audited)	For the year ended 31 December 2018 (audited)	For the nine months ended 30 September 2019 (unaudited)	annual caps for the year ending 31 December 2019	For the year ending 31 December			
(in US\$'000)					2020	2021	2022	
(A) Purchase of products or services, lease of movable properties or purchase of equipment from the Hon Hai Group by the Group								
1.	Purchase Transaction	1,319,529	1,030,816	776,347	2,725,000	1,889,106	2,334,761	2,885,550
2.	Non-real Property Lease Expense Transaction	13,287	12,791	6,086	21,000	24,577	32,483	42,932
3.	Consolidated Services and Sub-contracting Expense Transaction	229,483	240,877	181,519	381,000	335,326	414,432	512,200
4.	Equipment Purchase Transaction	80,457	64,727	22,556	187,000	109,382	135,186	167,077
(B) Sale of products or services to the Hon Hai Group by the Group								
5.	Product Sales Transaction	1,684,285	1,207,353	789,294	2,588,000	2,289,785	2,829,964	3,497,575
6.	Sub-contracting Income Transaction	104,698	26,180	24,987	130,000	142,342	175,921	217,422

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Analysis on the Proposed Annual Caps

To assess the fairness and reasonableness of the Proposed Annual Caps, we have considered the basis for determining the Proposed Annual Caps and reviewed the calculation of the Proposed Annual Caps.

As stated in the Letter from the Board, the Proposed Annual Caps for the years of 2020, 2021 and 2022 for each of the Non-exempt Continuing Connected Transactions are mainly based on:

1. Purchase Transaction

- (a) the historical transaction amounts and the estimated transaction amount for the whole year of 2019;
- (b) the historical growth rate of turnover of the Group during the current term of the Purchase Agreement;
- (c) the anticipated increase in the purchase of materials or components (or other products) from the Hon Hai Group to meet the production needs of the Group due to the increasing number of types and variety of materials and components (and other products) manufactured, owned or held (coupled with interest) by the Hon Hai Group; and
- (d) a buffer of approximately 10% to cater for any unforeseen changes in market conditions (including but not limited to an unexpected increase in customer demand and/or unexpected increase in the cost of supply, where applicable).

2. Non-real Property Lease Expense Transaction

- (a) the historical transaction amounts and the estimated transaction amount for the whole year of 2019;
- (b) the growth rate of the transaction amounts during the current term of the Framework Non-real Property Lease Expense Agreement;
- (c) the anticipated increase in the total transaction amount of the Product Sales Transaction for the years of 2020, 2021 and 2022 as the Group may require the use of some specialised equipment and machinery by leasing from the Hon Hai Group so as to carry out the Product Sales Transaction and other manufacturing projects; and
- (d) a buffer of approximately 10% to cater for any unforeseen changes in market conditions (including but not limited to an unexpected increase in consumer demand and/or unexpected increase in the cost of supply, where applicable).

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3. Consolidated Services and Sub-contracting Expense Transaction

- (a) the historical transaction amounts and the estimated transaction amount for the whole year of 2019;
- (b) the growth rate of the transaction amounts during the current term of the Consolidated Services and Sub-contracting Expense Agreement;
- (c) the Group intends to engage the Hon Hai Group to provide more services under the Consolidated Services and Sub-contracting Expense Transaction (including but not limited to research and development services, and design services) to meet their production needs which can provide the Group with greater flexibility in cost-effective capacity planning and better cost control by not having to purchase additional equipment or recruit additional staff for manufacturing some customised products, in particular; and
- (d) a buffer of approximately 10% to cater for any unforeseen changes in market conditions (including but not limited to an unexpected increase in consumer demand and/or unexpected increase in the cost of supply, where applicable).

4. Equipment Purchase Transaction

- (a) the historical transaction amounts and the estimated transaction amount for the whole year of 2019;
- (b) the growth rate of the transaction amounts during the current term of the Framework Equipment Purchase Agreement;
- (c) it is expected that the Group may increase the purchase of equipment and machinery from the Hon Hai Group as some of the existing equipment and machinery of the Group need to be replaced and may need to purchase some specialised equipment and machinery for certain manufacturing processes; and
- (d) a buffer of approximately 10% to cater for any unforeseen changes in market conditions (including but not limited to an unexpected increase in consumer demand and/or unexpected increase in the cost of supply, where applicable).

5. Product Sales Transaction

- (a) the historical transaction amounts and the estimated transaction amount for the whole year of 2019;
- (b) the growth rate of the transaction amounts during the current term of the Framework Product Sales Agreement;

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- (c) the Product Sales Transaction during the past two financial years more focused on customers who were independent third parties in an attempt to broaden the Group's customer base. It is expected that the total transaction amount of the Product Sales Transaction for the years of 2020, 2021 and 2022 will increase due to the expansion of the scope of the products of the Group to be sold to cover such products (including but not limited to materials and components, and finished goods generally) manufactured, owned or held (coupled with interest) by the Group that may be used in connection with or for the purposes of the businesses of the Hon Hai Group from time to time; and
- (d) a buffer of approximately 10% to cater for any unforeseen changes in market conditions (including but not limited to an unexpected increase in consumer demand and/or unexpected increase in the cost of supply, where applicable).

6. *Sub-contracting Income Transaction*

- (a) the historical transaction amounts and the estimated transaction amount for the whole year of 2019;
- (b) the growth rate of the transaction amounts during the current term of the Sub-contracting Income Agreement;
- (c) the Sub-contracting Income Transaction during the past two financial years was mostly entered into with customers who were independent third parties in an attempt to broaden the Group's customer base. It is expected that the total transaction amount of the Sub-contracting Income Transaction for the years of 2020, 2021 and 2022 will increase due to the expansion of the scope of the services to be provided by the Group to cover handset and in-mould labelling and other research and development services, handset and other design services and other services that may form part of or be provided as part of the businesses of the Hon Hai Group from time to time; and
- (d) a buffer of approximately 10% to cater for any unforeseen changes in market conditions (including but not limited to an unexpected increase in consumer demand and/or unexpected increase in the cost of supply, where applicable).

Based on our review and discussions with the Management, the annual transaction amount of the Non-exempt Continuing Connected Transactions for 2019 represents the sum of the actual historical amounts for the seven months ended 31 July 2019 and a projected sum for the remaining five months from 1 August 2019 to 31 December 2019. The single highest monthly revenue of each of the Non-exempt Continuing Connected Transactions during the seven months ended 31 July 2019 is used to project the Group's monthly revenue in respect of the Non-exempt Continuing Connected Transactions for the remaining five months ending 31 December 2019.

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We understand that by the time the Company starts calculating the Proposed Annual Caps, the latest available historical transaction information of the Non-exempt Continuing Connected Transactions is up to the seven months ended 31 July 2019. We understand from the Company that the Group's revenue fluctuates from month to month and has a general tendency to be stronger in the second half of the year. The Company considers it appropriate to use the highest monthly revenue as the basis to project the monthly revenue for the remaining months of the year when the Proposed Annual Caps are calculated.

We have been provided by the Company with a half-yearly breakdown of the Non-exempt Continuing Connected Transactions information. We compare the transaction amount of the second half year with the first half year in respect of all Non-exempt Continuing Connected Transactions over 2017 and 2018. We concur with the Company's representation that the Group's Non-exempt Continuing Connected Transaction amount fluctuates from month to month and has a general tendency to be stronger in the second half of the year during 2017 and 2018. We consider it reasonable for the Company to apply the highest historical monthly transaction amount for the seven months ended 31 July 2019 as the basis to project for the remaining five months of the year.

The Proposed Annual Caps are calculated taking into account the single highest annual Non-exempt Continuing Connected Transactions amount over the years of 2016, 2017, 2018 and 2019 (the "**Base Figure**"). The amounts relating to 2016, 2017 and 2018 are actual historical transaction amount whilst the amount relating to 2019 represents the sum of the actual historical amount during the seven months ended 31 July 2019 and a projected sum for the remaining five months from 1 August 2019 to 31 December 2019 (as explained above). A growth rate (which will be discussed below) and 110%, representing 10% buffer, are applied to arrive at the annual caps for the year ending 31 December 2020. The annual caps for the year ending 31 December 2021 are calculated by multiplying the 2020 caps with the growth rate. The annual caps for the year ending 31 December 2022 are calculated by multiplying the 2021 caps with the growth rate.

The Company considers that the Purchase Transaction, the Product Sales Transaction, the Consolidated Services and Sub-contracting Expense Transaction, the Equipment Purchase Transaction and the Sub-contracting Income Transaction are positively correlated to the Company's revenue. The 23.6% growth rate refers to the annual growth rate of the revenue of the Group for the year ended 31 December 2018 while the 32.2% refers to the expected annual growth rate of the Non-real Property Lease Expense Transaction for the year ending 31 December 2019.

The Non-real Property Lease Expense Transaction represents only a portion of all sales transactions of the Group. The Group needs to lease the Non-real Properties only when the Group receives orders to manufacture certain tailor-made products for its customers that requires such movable non-real properties which are not available to the Group. The Company determines the growth rate for the Proposed Annual Caps of the Non-real Property Lease Expense Transaction based on the actual historical transaction amount in respect of 2016, 2017 and 2018 and the estimated information for 2019.

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The buffer of 10% is to cater for any unforeseen changes in market conditions including an unexpected increase in consumer demand and/or unexpected increase in the cost of supply (where applicable). We consider the buffer to be acceptable for the purpose of determining the Proposed Annual Caps.

Based on our assessment of the calculation of the Proposed Annual Caps, which are based on factors including the estimated transaction amounts for the year ending 31 December 2019, the annual growth rate and a buffer, we are of the view that the bases of determining the Proposed Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned. The Independent Shareholders should note that the Proposed Annual Caps and the underlying assumptions and calculations should not be construed as a forecast of any future expenditure, income or profitability of the Group.

Having considered that, in particular, (i) the Hon Hai Group is a prominent industry leader of providing vertically integrated manufacturing services and several of its members are Approved Vendors of the Group's customers; (ii) the Group can leverage on the platform of the Hon Hai Group to conduct the business operations more efficiently and enhance the competitiveness of the Group to serve its customers; (iii) the EGM Supplemental Agreements are meant to extend the current term of the NECCT Existing Agreements and the expiry up to 31 December 2022; and (iv) the terms of the Non-exempt Continuing Connected Transactions (as set out in the NECCT Existing Agreements to be amended by the EGM Supplemental Agreements after obtaining the Independent Shareholders' approval) are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole, we are of the view that the entering into of the Non-exempt Continuing Connected Transactions and the EGM Supplemental Agreements is in the ordinary and usual course of business of the Group and, together with the Proposed Annual Caps, is in the interests of the Company and the Shareholders as a whole.

VII. RECOMMENDATION

Having considered the above principal factors and reasons, in particular,

- (i) the reasons and benefits for the Non-exempt Continuing Connected Transactions;
- (ii) the carrying out of the Non-exempt Continuing Connected Transactions is to facilitate the respective businesses and operations of the Group and the Hon Hai Group from time to time, which is in turn a furtherance and continuance of the Group's businesses and operations;
- (iii) the respective terms of the EGM Supplemental Agreements are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole;

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- (iv) the transactions contemplated under the EGM Supplemental Agreements will be conducted in the ordinary and usual course of business of the Group and on normal commercial terms that are no less favourable than those prices and terms available with independent third parties of the Group; and
- (v) the basis for determining the Proposed Annual Caps are fair and reasonable,

we are of the view that (a) the Proposed Annual Caps are fair and reasonable; (b) the entering into of the Non-exempt Continuing Connected Transactions and the EGM Supplemental Agreements is in the Group's ordinary and usual course of business and, together with the Proposed Annual Caps, is in the interests of the Company and the Shareholders as a whole; and (c) the respective terms of the Non-exempt Continuing Connected Transactions (subject to obtaining the Independent Shareholders' approval, to be amended by the EGM Supplemental Agreements) are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole and, together with the bases of determining the Proposed Annual Caps, are fair and reasonable.

Accordingly, we advise the Independent Board Committee to recommend, and we recommend, the Independent Shareholders to vote in favour of the ordinary resolutions at the EGM approving the Non-exempt Continuing Connected Transactions, the EGM Supplemental Agreements and the Proposed Annual Caps.

Yours faithfully
For and on behalf of
Red Sun Capital Limited
Jimmy Chung
Managing Director

Mr. Jimmy Chung is a Responsible Officer of Red Sun Capital Limited to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO and permitted to undertake work as sponsor. He has over 20 years of experience in corporate finance industry in Greater China.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

(a) Directors' interests

As at the Latest Practicable Date, the interests and/or short positions, if any, of each Director and chief executive of the Company in the shares, underlying shares and/or debentures of the Company and/or any of its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and chief executive were taken or deemed to have under such provisions of the SFO), or (ii) which were required to be and were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or (iii) which were otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) adopted by the Company were as follows:

Name of director	Name of corporation	Capacity/Nature of interest	Total number of ordinary shares	Approximate percentage of interest in the Company/ associated corporation
CHIH Yu Yang	The Company	Personal Interest	20,731,661	0.2524%
	Hon Hai	Personal Interest	308,075	0.0022%
	Chiun Mai Communication Systems, Inc. (“ CMCS ”) (Note)	Personal Interest	1,000	0.0007%
KUO Wen-Yi	The Company	Interest of Spouse	700,000	0.0085%
	Hon Hai	Personal Interest	1,848	0.00001%
		Interest of Spouse	13	0.0000001%

Note: The Company indirectly, through its wholly-owned subsidiaries, holds approximately 87.06% of the entire number of issued shares of CMCS, a company incorporated in Taiwan.

Save as disclosed above, none of the Directors or chief executive of the Company had, as at the Latest Practicable Date, any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (i) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and chief executive of the Company were taken or deemed to have under such provisions of the SFO), or (ii) which were required to be and were recorded in the register required to be kept by the Company under Section 352 of the SFO, or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

No transactions, arrangements or contracts of significance in relation to the Group's business to which the Company, any of its subsidiaries, its holding company or any subsidiary of the Company's holding company was a party and in which a director of the Company or an entity connected with a director of the Company (as defined in Section 486 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)) had a material interest, whether directly or indirectly, subsisted as at the Latest Practicable Date.

(b) Substantial Shareholders' interests

So far as is known to any Director, as at the Latest Practicable Date, Shareholders (other than the Directors or chief executive of the Company) who had interests and/or short positions in the shares and/or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were required to be and were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name of substantial shareholder	Capacity/ Nature of interest	Total number of ordinary shares	Approximate percentage of interest in the Company
Foxconn (Far East) Limited (Note 1)	Beneficial owner	5,081,034,525	61.86%
Hon Hai (Notes 1 & 2)	Interest of a controlled corporation	5,081,034,525	61.86%

Notes:

1. Foxconn (Far East) Limited is a direct wholly-owned subsidiary of Hon Hai, and therefore, Hon Hai is deemed or taken to be interested in the 5,081,034,525 Shares which are beneficially owned by Foxconn (Far East) Limited for the purposes of the SFO.
2. Mr. CHIH Yu Yang, the acting chairman and an executive Director, is a director of certain subsidiaries of Hon Hai. Mr. WANG Chien Ho, an executive Director, is an employee of the Hon Hai Group.

Save as disclosed above, as at the Latest Practicable Date, the Company had not been notified by any persons (other than the Directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would be required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were required to be and were recorded in the register required to be kept by the Company under Section 336 of the SFO.

3. EXPERT AND CONSENT

The following is the qualification of the expert who has been named in this circular or has given opinion or advice contained in this circular:

Name of expert	Qualification
Red Sun Capital Limited	a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

As at the Latest Practicable Date, Red Sun was not beneficially interested in the share capital of any member of the Group nor had any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Red Sun had given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name and/or logo in the form and context in which they appear.

The letter and recommendation given by Red Sun are given as of the date of this circular for incorporation herein.

As at the Latest Practicable Date, Red Sun had no direct or indirect interest in any assets which had been acquired or disposed of by, or leased to, or which were proposed to be acquired or disposed of by, or leased to, any member of the Group since 31 December 2018, being the date to which the latest published audited consolidated financial statements of the Company were made up.

4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered or proposed to enter into any service contract with any member of the Group which does not expire or which is not determinable by the Company or its subsidiaries (as the case may be) within one year without payment of compensation other than statutory compensation.

5. DIRECTORS' INTEREST IN ASSETS

As at the Latest Practicable Date, none of the Directors had any direct or indirect interests in any assets which had been acquired or disposed of by, or leased to, or which were proposed to be acquired or disposed of by, or leased to, any member of the Group since 31 December 2018, being the date to which the latest published audited consolidated financial statements of the Company were made up.

6. DIRECTORS' INTEREST IN COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors or their respective close associates had any interest in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group as required to be disclosed pursuant to the Listing Rules.

7. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, save as disclosed in (i) the announcement of the Company dated 9 August 2019 in respect of the interim results of the Group for the six months ended 30 June 2019; (ii) the Company's 2019 interim report as issued and published on 9 September 2019; and (iii) the profit warning announcement of the Company dated 31 October 2019, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2018, being the date to which the latest published audited consolidated financial statements of the Company were made up.

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the Company's principal place of business in Hong Kong at 8th Floor, Peninsula Tower, 538 Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong during normal business hours on any weekday (except public holidays in Hong Kong) from the date of this circular up to the date of the EGM (both dates inclusive) and also at the EGM:

- (a) the EGM Supplemental Agreements;
- (b) the Purchase Agreement;
- (c) the Framework Non-real Property Lease Expense Agreement;
- (d) the Consolidated Services and Sub-contracting Expense Agreement;
- (e) the Framework Equipment Purchase Agreement;
- (f) the Framework Product Sales Agreement; and
- (g) the Sub-contracting Income Agreement.

NOTICE OF EGM



FIH Mobile Limited

富智康集團有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 2038)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “**EGM**”) of the shareholders of FIH MOBILE LIMITED (the “**Company**”) will be held at Kowloon Room I, Mezzanine Level, Kowloon Shangri-La Hotel, 64 Mody Road, Tsimshatsui East, Hong Kong on Friday, 6 December 2019 at 10:00 a.m. for the purpose of considering and, if thought fit, passing (with or without modifications) the following ordinary resolutions:

ORDINARY RESOLUTIONS

1. **“THAT:**

- (a) the terms of the seventh supplemental agreement to the framework product supply agreement (formerly known as the framework materials and components supply agreement) (the “**Supplemental Purchase Agreement**”) (a copy of which is tabled at the meeting and marked “A” for identification purposes) dated 9 October 2019 entered into between the Company and Hon Hai and the Company’s execution and delivery thereof be and are hereby approved in all respects;
- (b) the transactions contemplated under the framework product supply agreement (formerly known as the framework materials and components supply agreement) entered into among the Company, 鴻海精密工業股份有限公司 (Hon Hai Precision Industry Co. Ltd., for identification purposes only) (“**Hon Hai**”), Innolux Corporation (an associate of Hon Hai formerly known as Innolux Display Corporation and then Chimei Innolux Corporation) (“**Innolux**”) and 鴻準精密工業股份有限公司 (Foxconn Technology Co. Ltd., for identification purposes only) (an associate of Hon Hai) on 19 January 2005 (as amended by the respective supplemental agreements among the above parties dated 28 February 2006, 24 October 2007 and 19 November 2010, and the respective supplemental agreements between the Company and Hon Hai dated 17 October 2013, 11 August 2016 and 31 July 2017) and further amended by the Supplemental Purchase Agreement (the “**Purchase Transaction**”) for the three years ending 31 December 2022 and the Company’s entering into and implementation thereof from time to time thereunder and the latest terms governing the same be and are hereby approved in all respects;
- (c) the proposed annual caps as set out in the Company’s circular dated 14 November 2019 (the “**Circular**”) in respect of the Purchase Transaction for the three years ending 31 December 2022 be and are hereby approved in all respects; and

NOTICE OF EGM

(d) any one director of the Company, or any two directors of the Company if affixation of the Company's common seal is necessary, be and is/are hereby authorised for and on behalf of the Company to execute and deliver (and affix the Company's common seal to, if necessary) all such other documents, instruments or agreements and to do all such other acts or things which he/they may in his/their absolute discretion consider necessary or desirable in connection with or incidental to any of the matters contemplated under the Supplemental Purchase Agreement and/or the Purchase Transaction for the three years ending 31 December 2022 and/or the said annual caps."

2. "THAT:

- (a) the terms of the third supplemental agreement to the framework lease agreement relating to movable non-real properties (the "**Supplemental Non-real Property Lease Expense Agreement**") (a copy of which is tabled at the meeting and marked "B" for identification purposes) dated 9 October 2019 entered into between the Company and Hon Hai and the Company's execution and delivery thereof be and are hereby approved in all respects;
- (b) the transactions contemplated under the framework lease agreement relating to movable non-real properties entered into between the Company and Hon Hai on 13 June 2013 (as amended by the respective supplemental agreements dated 17 October 2013 and 11 August 2016) and further amended by the Supplemental Non-real Property Lease Expense Agreement (the "**Non-real Property Lease Expense Transaction**") for the three years ending 31 December 2022 and the Company's entering into and implementation thereof from time to time thereunder and the latest terms governing the same be and are hereby approved in all respects;
- (c) the proposed annual caps as set out in the Circular in respect of the Non-real Property Lease Expense Transaction for the three years ending 31 December 2022 be and are hereby approved in all respects; and
- (d) any one director of the Company, or any two directors of the Company if affixation of the Company's common seal is necessary, be and is/are hereby authorised for and on behalf of the Company to execute and deliver (and affix the Company's common seal to, if necessary) all such other documents, instruments or agreements and to do all such other acts or things which he/they may in his/their absolute discretion consider necessary or desirable in connection with or incidental to any of the matters contemplated under the Supplemental Non-real Property Lease Expense Agreement and/or the Non-real Property Lease Expense Transaction for the three years ending 31 December 2022 and/or the said annual caps."

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3. “THAT:

- (a) the terms of the fourth supplemental agreement to the framework consolidated services and sub-contracting agreement (the “**Supplemental Consolidated Services and Sub-contracting Expense Agreement**”) (a copy of which is tabled at the meeting and marked “C” for identification purposes) dated 9 October 2019 entered into between the Company and Hon Hai and the Company’s execution and delivery thereof be and are hereby approved in all respects;
- (b) the transactions contemplated under the framework consolidated services and sub-contracting agreement entered into among the Company, Hon Hai, PCE Industry Inc. (a former subsidiary of Hon Hai which had been dissolved) and Sutech Industry Inc. (a wholly-owned subsidiary of the Company) on 24 October 2007 (as amended by the respective supplemental agreements between the Company and Hon Hai dated 19 November 2010, 17 October 2013 and 11 August 2016) and further amended by the Supplemental Consolidated Services and Sub-contracting Expense Agreement (the “**Consolidated Services and Sub-contracting Expense Transaction**”) for the three years ending 31 December 2022 and the Company’s entering into and implementation thereof from time to time thereunder and the latest terms governing the same be and are hereby approved in all respects;
- (c) the proposed annual caps as set out in the Circular in respect of the Consolidated Services and Sub-contracting Expense Transaction for the three years ending 31 December 2022 be and are hereby approved in all respects; and
- (d) any one director of the Company, or any two directors of the Company if affixation of the Company’s common seal is necessary, be and is/are hereby authorised for and on behalf of the Company to execute and deliver (and affix the Company’s common seal to, if necessary) all such other documents, instruments or agreements and to do all such other acts or things which he/they may in his/their absolute discretion consider necessary or desirable in connection with or incidental to any of the matters contemplated under the Supplemental Consolidated Services and Sub-contracting Expense Agreement and/or the Consolidated Services and Sub-contracting Expense Transaction for the three years ending 31 December 2022 and/or the said annual caps.”

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4. “**THAT:**

- (a) the terms of the sixth supplemental agreement to the framework equipment purchase agreement (the “**Supplemental Equipment Purchase Agreement**”) (a copy of which is tabled at the meeting and marked “D” for identification purposes) dated 9 October 2019 entered into between the Company and Hon Hai and the Company’s execution and delivery thereof be and are hereby approved in all respects;
- (b) the transactions contemplated under 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, 17 October 2013 and 11 August 2016) and further amended by the Supplemental Equipment Purchase Agreement (the “**Equipment Purchase Transaction**”) for the three years ending 31 December 2022 and the Company’s entering into and implementation thereof from time to time thereunder and the latest terms governing the same be and are hereby approved in all respects;
- (c) the proposed annual caps as set out in the Circular in respect of the Equipment Purchase Transaction for the three years ending 31 December 2022 be and are hereby approved in all respects; and
- (d) any one director of the Company, or any two directors of the Company if affixation of the Company’s common seal is necessary, be and is/are hereby authorised for and on behalf of the Company to execute and deliver (and affix the Company’s common seal to, if necessary) all such other documents, instruments or agreements and to do all such other acts or things which he/they may in his/their absolute discretion consider necessary or desirable in connection with or incidental to any of the matters contemplated under the Supplemental Equipment Purchase Agreement and/or the Equipment Purchase Transaction for the three years ending 31 December 2022 and/or the said annual caps.”

5. “**THAT:**

- (a) the terms of the sixth supplemental agreement to the framework product sales agreement (the “**Supplemental Product Sales Agreement**”) (a copy of which is tabled at the meeting and marked “E” for identification purposes) dated 9 October 2019 entered into between the Company and Hon Hai and the Company’s execution and delivery thereof be and are hereby approved in all respects;

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- (b) the transactions contemplated under the framework product sales agreement entered into among the Company, Hon Hai and Innolux on 18 January 2005 (as amended by the respective supplemental agreements among the above parties dated 28 February 2006, 24 October 2007 and 19 November 2010, and the respective supplemental agreements between the Company and Hon Hai dated 17 October 2013 and 11 August 2016) and further amended by the Supplemental Product Sales Agreement (the “**Product Sales Transaction**”) for the three years ending 31 December 2022 and the Company’s entering into and implementation thereof from time to time thereunder and the latest terms governing the same be and are hereby approved in all respects;
- (c) the proposed annual caps as set out in the Circular in respect of the Product Sales Transaction for the three years ending 31 December 2022 be and are hereby approved in all respects; and
- (d) any one director of the Company, or any two directors of the Company if affixation of the Company’s common seal is necessary, be and is/are hereby authorised for and on behalf of the Company to execute and deliver (and affix the Company’s common seal to, if necessary) all such other documents, instruments or agreements and to do all such other acts or things which he/they may in his/their absolute discretion consider necessary or desirable in connection with or incidental to any of the matters contemplated under the Supplemental Product Sales Agreement and/or the Product Sales Transaction for the three years ending 31 December 2022 and/or the said annual caps.”

6. “**THAT:**

- (a) the terms of the seventh supplemental agreement to the framework sub-contracting agreement (the “**Supplemental Sub-contracting Income Agreement**”) (a copy of which is tabled at the meeting and marked “F” for identification purposes) dated 9 October 2019 entered into between the Company and Hon Hai and the Company’s execution and delivery thereof be and are hereby approved in all respects;
- (b) the transactions contemplated under the framework sub-contracting 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, 26 July 2012, 17 October 2013 and 11 August 2016) and further amended by the Supplemental Sub-contracting Income Agreement (the “**Sub-contracting Income Transaction**”) for the three years ending 31 December 2022 and the Company’s entering into and implementation thereof from time to time thereunder and the latest terms governing the same be and are hereby approved in all respects;
- (c) the proposed annual caps as set out in the Circular in respect of the Sub-contracting Income Transaction for the three years ending 31 December 2022 be and are hereby approved in all respects; and

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- (d) any one director of the Company, or any two directors of the Company if affixation of the Company's common seal is necessary, be and is/are hereby authorised for and on behalf of the Company to execute and deliver (and affix the Company's common seal to, if necessary) all such other documents, instruments or agreements and to do all such other acts or things which he/they may in his/their absolute discretion consider necessary or desirable in connection with or incidental to any of the matters contemplated under the Supplemental Sub-contracting Income Agreement and/or the Sub-contracting Income Transaction for the three years ending 31 December 2022 and/or the said annual caps."

By Order of the Board
CHIH Yu Yang
Acting Chairman

Hong Kong, 14 November 2019

Registered Office:

P. O. Box 31119 Grand Pavilion
Hibiscus Way
802 West Bay Road
Grand Cayman, KY1-1205
Cayman Islands

Head Office:

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People's Republic of China

*Principal Place of Business
in Hong Kong:*

8th Floor, Peninsula Tower
538 Castle Peak Road
Cheung Sha Wan
Kowloon
Hong Kong

Notes:

- (1) The register of members of the Company will be closed from Monday, 2 December 2019 to Friday, 6 December 2019, both days inclusive, during which period no transfer of shares of the Company ("Shares") will be registered. In order to be entitled to attend and vote at the EGM, all transfers of Shares accompanied by the relevant share certificates and properly completed and signed transfer forms must be lodged with the branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration no later than 4:30 p.m. on Friday, 29 November 2019.
- (2) Any member entitled to attend and vote at the meeting convened by this notice is entitled to appoint one or more proxies to attend and to vote on his/her behalf. A proxy need not be a member of the Company. If more than one proxy is appointed, the appointment shall specify the number of Shares in respect of which each such proxy is appointed.

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- (3) Where there are joint registered holders of any Share(s), any one of such joint holders may vote, either in person or by proxy, in respect of such Share(s) as if he/she were solely entitled thereto, but if more than one of such joint holders is present at the meeting, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose, seniority shall be determined by the order in which the names stand in the register of members in respect of the joint holding.
- (4) To be valid, the form of proxy, together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power or authority, must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not less than 48 hours before the time scheduled for holding the meeting (or adjourned meeting thereof). Completion and return of the form of proxy will not preclude members from attending and voting in person at the meeting or any adjournment thereof if the members so desire.
- (5) In accordance with Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"), Hon Hai, the ultimate controlling shareholder of the Company, and its associates (such term as defined in the Listing Rules) are required to abstain from voting on all the above ordinary resolutions.
- (6) The ordinary resolutions set out above will be determined by way of poll.