

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a licensed stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

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)

CONTINUING CONNECTED TRANSACTIONS

Financial adviser

瑞東
REORIENT 

REORIENT Financial Markets Limited

Independent financial adviser to

the Independent Board Committee and the Independent Shareholders

 **第一上海**
FIRST SHANGHAI GROUP
FIRST SHANGHAI CAPITAL LIMITED
第一上海融資有限公司

First Shanghai Capital Limited

A letter from the board of directors of FIH Mobile Limited is set out on pages 6 to 30 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 31 of this circular. A letter from First Shanghai Capital Limited containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 32 to 46 of this circular.

A notice convening the extraordinary general meeting of the Company to be held at Luxembourg Room, 3/F., Regal Kowloon Hotel, 71 Mody Road, Tsimshatsui, Kowloon, Hong Kong on Wednesday, 21 September 2016 at 10:00 a.m. is set out on pages 51 to 56 of this circular. Whether or not you are able to attend the extraordinary general meeting, please complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, as soon as possible and in any event not less than 48 hours before the time 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 at the extraordinary general meeting in person should you so wish.

Hong Kong, 1 September 2016

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DEFINITIONS

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

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| “Announcement” | the announcement of the Company dated 11 August 2016 regarding, among other things, the proposed revision of the respective annual caps for the Product Sales Transaction and the Consolidated Services and Sub-contracting Expense Transaction for the year ending 31 December 2016, the Continuing Connected Transactions, the proposed annual caps in respect of each of the Continuing Connected Transactions for the three years ending 31 December 2019 and the Supplemental Agreements |
| “Approved Vendor(s)” | supplier(s) of materials and components for the manufacture of handsets as approved by the customer(s) of the Group |
| “associate(s)” | having the meaning as defined in the Listing Rules |
| “Board” | the board of Directors |
| “Company” | FIH Mobile Limited, a limited liability company incorporated in the Cayman Islands, the shares of which are listed on the Stock Exchange |
| “Consolidated Services and Sub-contracting Expense Agreement” | the framework consolidated services and sub-contracting agreement entered into among the Company, Hon Hai, PCE Industry Inc. (a subsidiary of Hon Hai) and Sutech Industry Inc. (a wholly-owned subsidiary of the Company) on 24 October 2007 (as amended by the respective supplemental agreements dated 19 November 2010 and 17 October 2013) |
| “Consolidated Services and Sub-contracting Expense Transaction” | the transactions contemplated under the Consolidated Services and Sub-contracting Expense Agreement which will (subject to obtaining the Independent Shareholders’ approval) be amended by the Supplemental Consolidated Services and Sub-contracting Expense Agreement |
| “Continuing Connected Transactions” | collectively, the Purchase Transaction, the Product Sales Transaction, the Non-real Property Lease Expense Transaction, the Consolidated Services and Sub-contracting Expense Transaction and the Equipment Purchase Transaction |
| “Directors” | the directors of the Company |

DEFINITIONS

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| “EGM” | the extraordinary general meeting of the Company to be held on Wednesday, 21 September 2016 at 10:00 a.m. to approve the proposed revision of the respective annual caps for the Product Sales Transaction and the Consolidated Services and Sub-contracting Expense Transaction for the year ending 31 December 2016, the Continuing Connected Transactions, the proposed annual caps in respect of each of the Continuing Connected Transactions for the three years ending 31 December 2019 and the Supplemental Agreements, or where the context so admits, any adjournment thereof |
| “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 |
| “First Shanghai” | First Shanghai Capital Limited, a licensed corporation under the SFO to carry out type 6 (advising on corporate finance) regulated activity which has been appointed by the Company to be the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the proposed revision of the respective annual caps for the Product Sales Transaction and the Consolidated Services and Sub-contracting Expense Transaction for the year ending 31 December 2016, the Continuing Connected Transactions, the respective proposed annual caps in respect of the Continuing Connected Transactions for the three years ending 31 December 2019 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 and 17 October 2013) |
| “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 a supplemental agreement dated 17 October 2013) |

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| “Framework Product Sales Agreement” | the framework product sales agreement entered into among the Company, Hon Hai and Innolux Corporation (an associate of Hon Hai formerly known as Innolux Display Corporation and then Chimei Innolux Corporation) on 18 January 2005 (as amended by the respective supplemental agreements dated 28 February 2006, 24 October 2007, 19 November 2010 and 17 October 2013) |
| “Group” | the Company and/or its subsidiaries (as the case may be) |
| “Hon Hai” | 鴻海精密工業股份有限公司 (Hon Hai Precision Industry Co. Ltd. for identification purposes only), the ultimate controlling shareholder of the Company |
| “Hon Hai Group” | Hon Hai, its subsidiaries and/or associates (as the case may be) |
| “Independent Board Committee” | the independent board committee established by the Board to consider the proposed revision of the respective annual caps for the Product Sales Transaction and the Consolidated Services and Sub-contracting Expense Transaction for the year ending 31 December 2016, the Continuing Connected Transactions, the respective proposed annual caps in respect of the Continuing Connected Transactions for the three years ending 31 December 2019 and the Supplemental Agreements |
| “Independent Shareholders” | Shareholders other than Hon Hai and its associates |
| “Latest Practicable Date” | Monday, 29 August 2016, 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, as amended and supplemented from time to time |
| “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 |
| “Non-real Property Lease Expense Transaction” | the transactions 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 Transactions” | collectively, the Sub-contracting Income Transaction, the General Services Expense Transaction, the Equipment Sale Transaction and the Lease Expense Transaction as defined and set out in the Announcement |
| “percentage ratios” | the percentage ratios calculated based on the requirements under Rule 14.07 of the Listing Rules |
| “Product Sales Transaction” | sale of parts or other products manufactured or owned by the Group to the Hon Hai Group as contemplated under the Framework Product Sales Agreement 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 for the Product Sales Transaction and the Consolidated Services and Sub-contracting Expense Transaction for the year ending 31 December 2016, and the respective proposed annual caps for the Continuing Connected Transactions for the three years ending 31 December 2019 |
| “Purchase Agreement” | the framework materials and components supply agreement entered into among the Company, Hon Hai, Innolux Corporation (formerly known as Innolux Display Corporation and then Chimei Innolux Corporation) and 鴻準精密工業股份有限公司 (Foxconn Technology Company Limited for identification purposes only) (both associates of Hon Hai) on 19 January 2005 (as amended by the respective supplemental agreements dated 28 February 2006, 24 October 2007, 19 November 2010 and 17 October 2013) |
| “Purchase Transaction” | purchase of materials and components 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 |

DEFINITIONS

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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 Supplemental Purchase Agreement, the Supplemental Product Sales Agreement, the Supplemental Non-real Property Lease Expense Agreement, the Supplemental Consolidated Services and Sub-contracting Expense Agreement and the Supplemental Equipment Purchase Agreement |
| “Supplemental Consolidated Services and Sub-contracting Expense Agreement” | the supplemental agreement dated 11 August 2016 entered into between the Company and Hon Hai, conditional upon obtaining the Independent Shareholders’ approval, to extend the term of the Consolidated Services and Sub-contracting Expense Agreement to 31 December 2019 |
| “Supplemental Equipment Purchase Agreement” | the supplemental agreement dated 11 August 2016 entered into between the Company and Hon Hai, conditional upon obtaining the Independent Shareholders’ approval, to extend the term of the Framework Equipment Purchase Agreement to 31 December 2019 |
| “Supplemental Non-real Property Lease Expense Agreement” | the supplemental agreement dated 11 August 2016 entered into between the Company and Hon Hai, conditional upon obtaining the Independent Shareholders’ approval, to extend the term of the Framework Non-real Property Lease Expense Agreement to 31 December 2019 |
| “Supplemental Product Sales Agreement” | the supplemental agreement dated 11 August 2016 entered into between the Company and Hon Hai, conditional upon obtaining the Independent Shareholders’ approval, to extend the term of the Framework Product Sales Agreement to 31 December 2019 |
| “Supplemental Purchase Agreement” | the supplemental agreement dated 11 August 2016 entered into between the Company and Hon Hai, conditional upon obtaining the Independent Shareholders’ approval, to extend the term of the Purchase Agreement to 31 December 2019 |
| “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:

TONG Wen-hsin (*Chairman*)
CHIH Yu Yang (*Chief Executive Officer*)
WANG Chien Ho

Independent Non-executive Directors:

LAU Siu Ki
Daniel Joseph MEHAN
CHEN Fung Ming

Registered Office:

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No. 18 Youyi Road
Langfang Economic and
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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

1 September 2016

Dear Shareholders,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

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

The Hon Hai Group is the leading global manufacturing service provider in the 3C industries. Hon Hai is the ultimate controlling shareholder of the Company holding approximately 64.37% of the total number of issued shares of the Company as at the Latest Practicable Date.

The Group from time to time has been carrying out, among other transactions, the Continuing Connected Transactions with the Hon Hai Group.

LETTER FROM THE BOARD

With reference to the Announcement, on 11 August 2016, among other things, the Company entered into the Supplemental Agreements, which will become effective only after obtaining the Independent Shareholders' approval, to extend the term of the Continuing Connected Transactions to 31 December 2019. The Company has also proposed new annual caps for each of the Continuing Connected Transactions for the three years ending 31 December 2019.

The Company envisages that the respective annual caps for the Product Sales Transaction and the Consolidated Services and Sub-contracting Expense Transaction for the year ending 31 December 2016 may not be sufficient and proposes to revise the respective annual caps for the Product Sales Transaction and the Consolidated Services and Sub-contracting Expense Transaction for the year ending 31 December 2016.

Based on the respective proposed annual caps for the Product Sales Transaction and the Consolidated Services and Sub-contracting Expense Transaction for the year ending 31 December 2016, the proposed revision of the respective annual caps for the Product Sales Transaction and the Consolidated Services and Sub-contracting Expense Transaction for the year ending 31 December 2016 is subject to the Independent Shareholders' approval. Based on the maximum amount of the proposed annual caps for the three years ending 31 December 2019 in respect of each of the Continuing Connected Transactions and in view of the connections between the Non-real Property Lease Expense Transaction and the Product Sales Transaction, each of the Continuing Connected Transactions constitutes a non-exempt continuing connected transaction for the Company under the Listing Rules. Accordingly, the Continuing Connected Transactions, the proposed annual caps in respect of each of the Continuing Connected Transactions for the three years ending 31 December 2019 and the Supplemental Agreements are subject to the approval of the Independent Shareholders. The Company has established the Independent Board Committee to advise the Independent Shareholders and has appointed First Shanghai as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

The purpose of this circular is to provide the Shareholders with information regarding the proposed revision of the respective annual caps for the Product Sales Transaction and the Consolidated Services and Sub-contracting Expense Transaction for the year ending 31 December 2016, the Continuing Connected Transactions, the proposed annual caps in respect of each of the Continuing Connected Transactions for the three years ending 31 December 2019 and the Supplemental Agreements, and to seek approval of the Independent Shareholders in respect of the ordinary resolutions set out in the notice of the EGM on pages 51 to 56 of this circular. The recommendation of the Independent Board Committee to the Independent Shareholders in respect of the aforesaid is set out on page 31 of this circular. The letter from First Shanghai to the Independent Board Committee and the Independent Shareholders containing its advice in respect of the aforesaid is set out on pages 32 to 46 of this circular.

This circular also provides information regarding the Other Transactions. As set out in the Announcement the Other Transactions are continuing connected transactions of the Company that are exempt from the circular (including independent financial advice) and the Independent Shareholders' approval requirements.

LETTER FROM THE BOARD

CONTINUING CONNECTED TRANSACTIONS

1. Purchase Transaction

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

- (1) in respect of purchases from an Approved Vendor, at the price agreed between the supplier and the Group's customer; if not, at a price to be determined by reference to the average market price; or
- (2) where (1) above is not appropriate or applicable, at a price to be agreed between the Group and the Hon Hai Group upon the basis of the principle of "cost plus"; or
- (3) where none of the above pricing bases is appropriate or applicable, at a price to be agreed between the Group and the Hon Hai Group based on reasonable commercial principles.

Under the Purchase Transaction, the Group purchases from the Hon Hai Group materials and components used in handset manufacturing including camera modules, LCD modules, moulds used in handset manufacturing and other handset components. Due to changes in the specifications of the handset products and technological changes, the specifications of such materials and components will change from time to time as they need to be tailored for the specific product being manufactured and having regard to the changing market conditions (which may affect the prices of materials and components), the Group is not able to fix the prices of such materials and components sourced from the Hon Hai Group but has instead agreed to the pricing terms set out above.

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

On 11 August 2016, the Company and Hon Hai entered into the Supplemental Purchase Agreement, which will become effective only after obtaining the Independent Shareholders' approval, to extend the term of the Purchase Agreement to 31 December 2019.

2. 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 2016 upon and subject to the terms and conditions set out therein at a price determined as follows:

- (1) where the Group has been approved or otherwise designated by the relevant customers of the Hon Hai Group, at the price agreed between the Group and such customers; if not, at a price to be determined by reference to the average market price; or

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- (2) where (1) above is not appropriate or applicable, at a price to be agreed between the Group and the Hon Hai Group upon the basis of the principle of “cost plus”; or
- (3) where none of the above pricing bases is appropriate or applicable, at a price to be agreed between the Group and the Hon Hai Group based on reasonable commercial principles.

Under the Product Sales Transaction, the Group sells to the Hon Hai Group parts and other products manufactured or owned by the Group including handset products and moulds used in handset manufacturing. 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.

On 11 August 2016, the Company and Hon Hai entered into the Supplemental Product Sales Agreement, which will become effective only after obtaining the Independent Shareholders’ approval, to extend the term of the Framework Product Sales Agreement to 31 December 2019.

3. 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 2016 upon and subject to the terms and conditions set out therein at a rental determined as follows:

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. 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. 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 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 advancement, the specifications of the equipment and machines including their speed and accuracy will change over time and the rental payable will need to

LETTER FROM THE BOARD

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).

On 11 August 2016, the Company and Hon Hai entered into the Supplemental Non-real Property Lease Expense Agreement, which will become effective only after obtaining the Independent Shareholders' approval, to extend the term of the Framework Non-real Property Lease Expense Agreement to 31 December 2019.

4. 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 services including research and development services, design services, repair services and sub-contracting services to the Group for a term up to 31 December 2016 upon and subject to the terms and conditions set out therein at a price determined as follows:

- (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 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.

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.

On 11 August 2016, the Company and Hon Hai entered into the Supplemental Consolidated Services and Sub-contracting Expense Agreement, which will become effective only after obtaining the Independent Shareholders' approval, to extend the term of the Consolidated Services and Sub-contracting Expense Agreement to 31 December 2019.

5. Equipment Purchase Transaction

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

- (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 for handset manufacturing including CNC machining centers, 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.

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

On 11 August 2016, the Company and Hon Hai entered into the Supplemental Equipment Purchase Agreement, which will become effective only after obtaining the Independent Shareholders' approval, to extend the term of the Framework Equipment Purchase Agreement to 31 December 2019.

LETTER FROM THE BOARD

OTHER TRANSACTIONS

6. Sub-contracting Income Transaction

Pursuant to the Sub-contracting Income Agreement (as defined in the Announcement), 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 2016 upon and subject to the terms and conditions set out therein at a price determined as follows:

- (1) where the Group has been approved or otherwise designated by the relevant customers of the Hon Hai Group, at the price agreed between the Group and such customers; if not, at a price to be determined by reference to the average market price; or
- (2) where (1) above is not appropriate or applicable, at a price to be agreed between the Group and the Hon Hai Group upon the basis of the principle of “cost plus”; or
- (3) where none of the above pricing bases is appropriate or applicable, at a price to be agreed between the Group and the Hon Hai Group based on reasonable commercial principles.

Under the Sub-contracting Income Transaction, the Group provides to the Hon Hai Group sub-contracting services including 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.

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

On 11 August 2016, the Company and Hon Hai entered into a supplemental agreement to extend the term of the Sub-contracting Income Agreement to 31 December 2019.

7. General Services Expense Transaction

Pursuant to the General Services Expense Agreement (as defined in the Announcement), the Hon Hai Group has agreed to provide general administrative, support, utility and other related services to the Group for a term up to 31 December 2016 upon and subject to the terms and conditions set out therein at a price determined as follows:

- (1) where there is a price determined by the relevant state, at such state-determined price; or
- (2) where there is no state-determined price, at the market price; or

LETTER FROM THE BOARD

- (3) where there is no state-determined price or market price, on 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 relevant parties.

Under the General Services Expense Transaction, the utility charges including water and electricity are based on stated-determined prices while the general administrative and support services including legal services and IT services are based on the costs as incurred by the Hon Hai Group.

At present, the Hon Hai Group charges the Group for the cost of the General Services Expense Transaction based on the actual costs incurred by the Hon Hai Group (including utility charges in accordance with any state-determined prices) and certain allocation bases as agreed between the parties from time to time depending on the nature of the General Services Expense Transaction. The Company considers the historic and present allocation bases and ratios are fair and reasonable. The Company will endeavour to agree with Hon Hai on any future allocation bases and ratios on a fair and equitable basis.

Payment for the General Services Expense Transaction is usually made by the Group within 45 days after the date of the relevant invoice.

On 11 August 2016, the Company entered into a supplemental agreement with Hon Hai to extend the term of the General Services Expense Agreement to 31 December 2019.

8. Equipment Sale Transaction

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

- (1) at the book value of the relevant equipment as recorded in the accounts of the relevant member of the 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 Sale Transaction, the Group sells to the Hon Hai Group mostly used equipment for handset manufacturing including sputtering machines, molding machines and inkjet printers that is no longer required by the Group due to customers’ orders which change over time and its continuous equipment utilisation management leading to recurring Equipment

LETTER FROM THE BOARD

Sale Transaction. The equipment purchased from and sold to the Hon Hai Group is mostly different equipment where the same equipment will not be purchased from and sold back to the Hon Hai Group in a short timeframe. As each used equipment will have different specifications and conditions (including different remaining useful life), the Group is not able to fix the prices for the equipment to be sold to the Hon Hai Group but has instead agreed to the pricing terms set out above.

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

On 11 August 2016, the Company entered into a supplemental agreement with Hon Hai to extend the term of the Framework Equipment Sale Agreement to 31 December 2019.

9. Lease Expense Transaction

Pursuant to the Framework Lease Expense Agreement (as defined in the Announcement), the Hon Hai Group has agreed to lease premises owned by it and located worldwide to the Group from time to time as requested by the Group for a term up to 31 December 2016 upon and subject to the terms and conditions set out therein at a rental determined as follows:

The rental payable by the Group under the Lease Expense Transaction shall be determined on a fair and reasonable basis with reference to the average market rental of other similar local properties in the market. If the average market rental is not available, the rental payable under the Lease Expense Transaction shall be determined on a “cost plus” basis. If both the average market rental basis and the “cost plus” basis are not appropriate or applicable, the rental payable under the Lease Expense Transaction shall be agreed between the relevant parties based on reasonable commercial principles.

Under the Lease Expense Transaction, the Group leases real properties from the Hon Hai Group mostly manufacturing premises for handset manufacturing. As the locations and the conditions of the properties vary, the Group is not able to fix the rentals but has instead agreed to the pricing terms set out above.

The relevant parties may enter into a separate specific lease agreement for the relevant premises leased by the Group under the Framework Lease Expense Agreement. The rentals for the Lease Expense Transaction are usually payable on a monthly basis.

On 11 August 2016, the Company entered into a supplemental agreement with Hon Hai to extend the term of the Framework Lease Expense Agreement to 31 December 2019.

LETTER FROM THE BOARD

PRICING DETAILS

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

| | Pricing terms in the agreements | Pricing details |
|--|--|---|
| <i>Continuing Connected Transactions</i> | | |
| 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 | <p>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 to be used in the Group's manufacturing of the final products for the Group's customer and the Group purchases such materials and components from the Hon Hai Group, such materials and components are purchased at prices agreed between the Group's customer and the Hon Hai Group (without the Group's involvement). In respect of the materials/components designated to be purchased from the Hon Hai Group, the Group is not allowed to source them from other suppliers. The Group will agree to purchase such materials and components from the Hon Hai Group at the price agreed between the Group's customer and the Hon Hai Group if the Company considers that it is profitable to do so, taking into account factors including the selling price of the relevant final product to the Group's customer as agreed between the Group and its customer (without the Hon Hai Group's involvement) and the relative costs of manufacturing such product, including the cost of materials and components purchased from the Hon Hai Group. Given that such pricing mechanism is in line with market practice and the Group will only agree to purchase such material/component from the Hon Hai Group if it is profitable to do so, the Company considers that such pricing basis is on normal commercial terms or better.</p> <p>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). For the purpose of obtaining market prices, the Group refers to recent purchase transaction(s) of the Group of the same materials/components from independent suppliers or quotations from independent suppliers, if available. In general, the Company will select at least one independent transaction or (if independent transactions are not available) three quotations from independent suppliers within three months of the proposed transaction with the Hon Hai Group in order to determine the average market price or the market price (if there is only one independent transaction available).</p> |

LETTER FROM THE BOARD

Pricing terms in the agreements

Pricing details

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| (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 | Cost plus is determined based on the cost of the products sold to the Group plus a margin as agreed between the Group and the Hon Hai Group. In determining the margin, the Group takes into account the margin for products of similar nature in the market by way of referring to margins for sales of products of similar nature by the Group or the Hon Hai Group to independent customers. In general, the Company will select one independent transaction (most related to the subject material/component in nature) within three months of the proposed transaction with the Hon Hai Group to determine the market margin. | |
| | | Under the cost-plus pricing, the cost is based on the Hon Hai Group’s accounting records which are prepared based on International Financial Reporting Standards. The Group’s operation departments will assess the reasonableness of such cost taking into account the cost structure including the materials and manufacturing process involved. The Group’s accounting departments will check whether the cost is in accordance with the Hon Hai Group’s accounting records. | |
| (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. | In consideration of its inventory optimisation management, the Hon Hai Group may agree to prices lower than costs and market prices. In such cases, the Company would make the purchases at such lower prices as agreed by the Hon Hai Group. The Company shall review and ensure such prices are lower than costs and market prices. This pricing term has not been applied since 2015 but remains to be relevant to cater to such circumstances in the future. | |
| 2. 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 | With regard to the pricing 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. |
| | | | For the purpose of obtaining market prices, the Group refers to recent sales/purchase transaction(s) of the Group of same products to/from independent customers/vendors, if available. In general, the Company will select at least one independent transaction within three months of the proposed transaction with the Hon Hai Group in order to determine the average market price or the market price (if there is only one independent transaction available). |
| | (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 | Cost plus is determined based on the cost of the products sold to the Hon Hai Group plus a margin as agreed between the Group and the Hon Hai Group. In determining the margin, the Group takes into account the margin for products of similar nature in the market by way of referring to margins for the Group’s sales of products of similar nature to independent customers. In general, the Company will select one independent transaction (most related to the subject product in nature) within three months of the proposed transaction with the Hon Hai Group to determine the market margin. |

LETTER FROM THE BOARD

Pricing terms in the agreements

Pricing details

Under the cost-plus pricing, the cost is based on the Hon Hai Group's accounting records which are prepared based on International Financial Reporting Standards. The Group's operation departments will assess the reasonableness of such cost taking into account the cost structure including the materials and manufacturing process involved. The Group's accounting departments will check whether the cost is in accordance with the Hon Hai Group's accounting records.

- (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.

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

3. Non-real Property
Lease Expense
Transaction

- (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.

For the purpose of obtaining market rentals, the Group refers to recent lease transaction(s) of the Group of similar Non-real Properties from independent third parties, if available. In general, the Company will select at least one independent transaction within three 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).

- (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.

Cost plus is determined based on the relevant cost of the transaction plus a margin as agreed between the Group and the Hon Hai Group. 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 Company will select one independent transaction (most related to the subject Non-real Property in nature) within three months of the proposed transaction with the Hon Hai Group to determine the market margin. 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 cost.

LETTER FROM THE BOARD

Pricing terms in the agreements

Pricing details

- Under the cost-plus pricing, the cost is based on the Hon Hai Group's accounting records which are prepared based on International Financial Reporting Standards. The Group's operation departments will assess the reasonableness of such cost taking into account the cost structure including the depreciation charge, interests and insurance costs. The Group's accounting departments will check whether the cost is in accordance with the Hon Hai Group's accounting records.
- (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.
4. 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
- 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 Company would lease such Non-real Properties from the Hon Hai Group at such lower prices as agreed by the Hon Hai Group. The Company shall review and ensure such prices are lower than costs and market prices. This pricing term has not been applied since 2015 but remains to be relevant to cater to such circumstances in the future.
- 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 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 Company considers that it is profitable to do so, taking into account factors including the selling price of the relevant final product to the Group's customer as agreed between the Group and its customer (without the Hon Hai Group's involvement) and the relative costs of manufacturing such product, including the cost of 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 Company 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 similar sub-contracting services from independent service providers or quotations from independent service providers, if available. In general, the Company will select at least one independent transaction or (if independent transactions are not available) three quotations from independent service providers within three months of the proposed transaction with the Hon Hai Group in order to determine the average market price or the market price (if there is only one independent transaction available).

LETTER FROM THE BOARD

Pricing terms in the agreements

Pricing details

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| | | <p>(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</p> | <p>Cost plus is determined based on the 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 Company will select one independent transaction (most related to the subject sub-contracting service in nature) within three months of the proposed transaction with the Hon Hai Group to determine the market margin.</p> <p>Under the cost-plus pricing, the cost is based on the Hon Hai Group’s accounting records which are prepared based on International Financial Reporting Standards. The Group’s operation departments will assess the reasonableness of such cost taking into account the cost structure including the materials and manufacturing process involved. The Group’s accounting departments will check whether the cost is in accordance with the Hon Hai Group’s accounting records.</p> |
| | | <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>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 Company would acquire the sub-contracting services from the Hon Hai Group at such lower prices as agreed by the Hon Hai Group. The Company shall review and ensure such prices are lower than costs and market prices. This pricing term has not been applied since 2015 but remains to be relevant to cater to such circumstances in the future.</p> |
| 5. | Equipment Purchase Transaction | <p>(a) at the book value of the relevant equipment as recorded in the accounts of the relevant member of the Hon Hai Group; or</p> | <p>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 Company 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.</p> |
| | | <p>(b) if (a) above is not appropriate or applicable, at a price to be determined by reference to the average market price; or</p> | <p>The average market price is based on quotations provided by independent suppliers, if available. In general, the Company will select three quotations from independent suppliers within three months of the proposed transaction with the Hon Hai Group in order to determine the average market price. This pricing is applied mainly for new equipment made by the Hon Hai Group.</p> |

LETTER FROM THE BOARD

Pricing terms in the agreements

- (c) where (a) and (b) above are not appropriate or applicable, at a price to be agreed between the relevant parties on the basis of the principle of “cost plus”; or

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

Pricing details

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 the Group’s sales (if available) of equipment of similar nature to independent customers. In general, the Company will select one independent transaction (most related to the subject equipment in nature) within three months of the proposed transaction with the Hon Hai Group to determine the market margin.

Under the cost-plus pricing, the cost is based on the Hon Hai Group’s accounting records which are prepared based on International Financial Reporting Standards. The Group’s operation departments will assess the reasonableness of such cost taking into account the cost structure including the materials and manufacturing process involved. The Group’s accounting departments will check whether the cost is in accordance with the Hon Hai Group’s accounting records.

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 Company would purchase the equipment from the Hon Hai Group at such lower prices as agreed by the Hon Hai Group. The Company shall review and ensure 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.

Other Transactions

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

With regard to the pricing 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 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 similar sub-contracting services to independent customers, if available. In general, the Company will select at least one independent transaction within three months of the proposed transaction with the Hon Hai Group in order to determine the average market price or the market price (if there is only one independent transaction available).

LETTER FROM THE BOARD

Pricing terms in the agreements

Pricing details

(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

Cost plus is determined based on the cost of the sub-contracting services provided 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 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 Company will select one independent transaction (most related to the subject sub-contracting service in nature) within three months of the proposed transaction with the Hon Hai Group to determine the market margin.

Under the cost-plus pricing, the cost is based on the Hon Hai Group’s accounting records which are prepared based on International Financial Reporting Standards. The Group’s operation departments will assess the reasonableness of such cost taking into account the cost structure including the materials and manufacturing process involved. The Group’s accounting departments will check whether the cost is in accordance with the Hon Hai Group’s accounting records.

(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.

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

7. General Services
Expense
Transaction

(a) where there is a price determined by the relevant state, at such state-determined price; or

The price is based on state-determined prices as published by the relevant government authority, such as electricity charges in Shenzhen in accordance with prices published by 廣東電網公司深圳供電局 (Guangdong Power Grid Corporation Shenzhen Power Supply Bureau, for identification purposes only) and water charges in Shenzhen in accordance with prices published by 深圳市深水龍華水務有限公司 (Shenzhen City Shenshui Longhua Water Services Limited, for identification purposes only).

LETTER FROM THE BOARD

Pricing terms in the agreements

(b) where there is no state-determined price, at the market price; or

(c) where there is no state-determined price or market price, on the principle of “cost plus”; or

(d) where none of the above pricing bases is appropriate or applicable, at a price to be agreed between the relevant parties.

Pricing details

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 similar general services from independent service providers or quotations from independent service providers, if available. In general, the Company will select at least one independent transaction or (if independent transactions are not available) three quotations from independent service providers within three months of the proposed transaction with the Hon Hai Group in order to determine the average market price or the market price (if there is only one independent transaction available).

The general services are charged at cost as incurred by the Hon Hai Group without markup.

Under the cost-plus pricing, the cost is based on the Hon Hai Group’s accounting records which are prepared based on International Financial Reporting Standards. The Group’s operation departments will assess the reasonableness of such cost taking into account the cost structure including the materials and services involved. The Group’s accounting departments will check whether the cost is in accordance with the Hon Hai Group’s accounting records.

In future, the Group and the Hon Hai Group may agree to a margin. In determining the margin, the Group will take into account the margin for general services of similar nature in the market by way of referring to margins for the Group’s provision of general services of similar nature to independent customers. In general, the Company will select one independent transaction (most related to the subject general service in nature) within three months of the proposed transaction with the Hon Hai Group to determine the market margin.

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

LETTER FROM THE BOARD

| | Pricing terms in the agreements | Pricing details |
|-------------------------------|---|---|
| 8. Equipment Sale Transaction | <p>(a) at the book value of the relevant equipment as recorded in the accounts of the relevant member of the Group; or</p> <p>(b) if (a) above is not appropriate or applicable, at a price to be determined by reference to the average market price; or</p> <p>(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</p> <p>(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.</p> | <p>The book value of the equipment is based on the accounting records of the relevant member of the Group. This pricing is applied mainly for used equipment. Given that most of the equipment sold to the Hon Hai Group is used equipment and its specifications and conditions vary, market prices may not be available. As such, the Company 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 applicable accounting policy and standards.</p> <p>The average market price is based on sales of equipment of similar nature to independent customers. In general, the Company will select at least one independent transaction within three months of the proposed transaction with the Hon Hai Group in order to determine the average market price or the market price (if there is only one independent transaction available). This pricing is applied mainly for new equipment made by the Group.</p> <p>Cost plus is determined based on the cost of the equipment sold 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 equipment of similar nature in the market by way of referring to margins for the Group’s sales of equipment of similar nature to independent customers. In general, the Company will select one independent transaction (most related to the subject equipment in nature) within three months of the proposed transaction with the Hon Hai Group to determine the market margin.</p> <p>Under the cost-plus pricing, the cost is based on the Hon Hai Group’s accounting records which are prepared based on International Financial Reporting Standards. The Group’s operation departments will assess the reasonableness of such cost taking into account the cost structure including the materials and manufacturing process involved. The Group’s accounting departments will check whether the cost is in accordance with the Hon Hai Group’s accounting records.</p> <p>In consideration of its equipment utilisation management, the Group may agree to prices lower than book value, costs and prices under the Group’s recent independent transactions. In such cases, the Company would only accept such lower prices if the equipment could not be sold at higher prices to independent customers and the Company does not consider it to be in its interests to keep such equipment having regard to factors such as equipment obsolescence. The Company will solicit purchases from independent parties and will ensure that the price of the equipment sold to the Hon Hai Group will not be lower than prices offered by interested independent buyers. This pricing term has not been applied since 2015 but remains to be relevant to cater to such circumstances in the future.</p> |

LETTER FROM THE BOARD

| | Pricing terms in the agreements | Pricing details |
|------------------------------|--|---|
| 9. Lease Expense Transaction | <p>The rental payable by the Group under the Lease Expense Transaction shall be determined on a fair and reasonable basis with reference to the average market rental of other similar local properties in the market. If the average market rental is not available, the rental payable under the Lease Expense Transaction shall be determined on a “cost plus” basis. If both the average market rental basis and the “cost plus” basis are not appropriate or applicable, the rental payable under the Lease Expense Transaction shall be agreed between the relevant parties based on reasonable commercial principles.</p> | <p>For the purpose of obtaining market rentals, the Group refers to recent lease transaction(s) of the Group of similar local properties from independent third parties, if available. In general, the Company will select at least one independent transaction within three 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).</p> <p>Cost plus is determined based on the relevant cost of the transaction plus a margin as agreed between the Group and the Hon Hai Group. In determining the margin, the Group takes into account the margin for lease of properties of similar nature in the market by way of referring to margins for the Group’s lease of properties of similar nature from/to independent parties. In general, the Company will select one independent transaction (most related to the subject property in nature) within three months of the proposed transaction with the Hon Hai Group to determine the market margin. The cost is usually determined on the basis of the depreciation charge and the related costs of the properties such as interests and insurance cost.</p> <p>Under the cost-plus pricing, the cost is based on the Hon Hai Group’s accounting records which are prepared based on International Financial Reporting Standards. The Group’s operation departments will assess the reasonableness of such cost taking into account the cost structure including the depreciation charge, interests and insurance costs. The Group’s accounting departments will check whether the cost is in accordance with the Hon Hai Group’s accounting records.</p> <p>In consideration of its properties utilisation management, the Hon Hai Group may agree to prices lower than costs and market rentals. In such cases, the Company would lease the properties from the Hon Hai Group at such lower prices as agreed by the Hon Hai Group. The Company shall review and ensure such prices are lower than costs and market rentals. This pricing term has not been applied since 2015 but remains to be relevant to cater to such circumstances in the future.</p> |

LETTER FROM THE BOARD

REASONS FOR THE CONTINUING CONNECTED TRANSACTIONS

The reasons for entering into and carrying out the 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 handsets. The Company believes that it is an important competitive advantage of the Group in the handset manufacturing service industry that the Group together with the members of the Hon Hai Group can provide a wide range of vertically integrated manufacturing services to the customers.

2. 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.

3. 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 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.

4. 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.

5. Equipment Purchase Transaction

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

LETTER FROM THE BOARD

HISTORICAL VALUES AND ANNUAL CAPS

The Company has set the respective annual caps for the Continuing Connected Transactions for the year ending 31 December 2016. Having regard to the Group's development plan where the Group targets to carry out more business that would result in additional Product Sales Transaction and Consolidated Services and Sub-contracting Expense Transaction, the Company envisages that the respective annual caps for the Product Sales Transaction and the Consolidated Services and Sub-contracting Expense Transaction for the year ending 31 December 2016 may not be sufficient and proposes to revise the respective annual caps for the Product Sales Transaction and the Consolidated Services and Sub-contracting Expense Transaction for the year ending 31 December 2016. In connection with the extension of the respective terms of the Continuing Connected Transactions to 31 December 2019, the Company proposes new annual caps for each of the Continuing Connected Transactions for the three years ending 31 December 2019.

The table below sets out (1) the historical actual amounts of each of the Continuing Connected Transactions for the year ended 31 December 2015 and for the six months ended 30 June 2016; (2) the existing or proposed (as the case may be) annual caps for each of the Continuing Connected Transactions for the year ending 31 December 2016; and (3) the proposed annual caps for each of the Continuing Connected Transactions for the three years ending 31 December 2019.

| <i>(in US\$'000)</i> | | Actual transaction amounts | | Existing/ proposed annual cap | Proposed annual caps | | |
|--------------------------------------|--|---|---|--|--|-----------|-----------|
| | | for the year ended 31 December 2015 <i>(audited)</i> | for the six months ended 30 June 2016 <i>(unaudited)</i> | for the year ending 31 December 2016 | for the year ending 31 December | | |
| Continuing Connected Transactions | | | | | 2017 | 2018 | 2019 |
| 1. | Purchase Transaction <i>(Note 1)</i> | 1,008,787 | 308,980 | 1,758,000 | 977,000 | 1,045,000 | 1,118,000 |
| 2. | Product Sales Transaction <i>(Note 1)</i> | 480,702 | 300,795 | 603,000 <i>(existing)</i> | 951,000 | 1,018,000 | 1,089,000 |
| | | | | 889,000 <i>(proposed)</i> | | | |
| 3. | Non-real Property Lease Expense Transaction <i>(Note 1)</i> | 15,692 | 8,086 <i>(Note 2)</i> | 25,000 | 19,000 | 20,000 | 21,000 |
| 4. | Consolidated Services and Sub-contracting Expense Transaction <i>(Note 1)</i> | 204,754 | 105,217 | 210,000 <i>(existing)</i> | 333,000 | 356,000 | 381,000 |
| | | | | 311,000 <i>(proposed)</i> | | | |
| 5. | Equipment Purchase Transaction <i>(Note 1)</i> | 99,739 | 29,506 | 182,000 | 163,000 | 175,000 | 187,000 |

LETTER FROM THE BOARD

Notes:

1. Based on the respective proposed annual caps for the year ending 31 December 2016 for the Product Sales Transaction and the Consolidated Services and Sub-contracting Expense Transaction, the proposed revision of the respective annual caps for the Product Sales Transaction and the Consolidated Services and Sub-contracting Expense Transaction for the year ending 31 December 2016 is subject to the Independent Shareholders' approval. Based on the maximum amount of the proposed annual caps for the three years ending 31 December 2019 in respect of each of the Continuing Connected Transactions and in view of the connections between the Non-real Property Lease Expense Transaction and the Product Sales Transaction, each of the Continuing Connected Transactions constitutes a non-exempt continuing connected transaction for the Company under the Listing Rules. Accordingly, the Continuing Connected Transactions, the proposed annual caps in respect of each of the Continuing Connected Transactions for the three years ending 31 December 2019 and the Supplemental Agreements are subject to the approval of the Independent Shareholders.
2. Based on the Company's estimation, subject to finalisation.

The proposed annual caps (including the respective proposed revised annual caps for the Product Sales Transaction and the Consolidated Services and Sub-contracting Expense Transaction for the year ending 31 December 2016) are determined with reference to projections of the Company which in turn are prepared by the Company mainly with reference to the following major factors:

- the actual amounts of the Continuing Connected Transactions in 2016;
- the historical percentages of the respective amounts of the Continuing Connected Transactions to the Group's turnover;
- the Group's historical turnover and budgets; and
- an additional buffer of 5%.

The Directors (including the independent non-executive Directors whose view is stated under the paragraph headed "Recommendation" below) consider that (a) the Proposed Annual Caps are fair and reasonable; (b) the entering into of the Continuing Connected Transactions and the Supplemental Agreements is in the Group's ordinary and usual course of business; and (c) the respective terms of the Continuing Connected Transactions and the Supplemental Agreements are fair and reasonable, on normal commercial terms and in the interests of the Company and its Shareholders as a whole. In view of his relationship with Hon Hai, Mr. WANG Chien Ho (being an executive Director) has abstained from voting on the Board's resolutions in relation to the Continuing Connected Transactions.

INTERNAL CONTROL

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

- Before entering into a transaction under the continuing connected transactions of the Company, the purchase departments and the operation departments of the Group 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

LETTER FROM THE BOARD

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 review the aforesaid works carried out by the purchase departments and the operation departments on a quarterly basis.

- The accounting department of the Company is primarily responsible to review and monitor the continuing connected transactions ensuring that the annual caps of the relevant continuing connected transactions are not exceeded and the continuing connected transactions have been conducted in accordance with the pricing policies or mechanisms under the framework agreements relating to such continuing connected transactions. The accounting department of the Company will consult with the Group's internal audit function in respect of continuing connected transaction compliance issues and annually report to the chief financial officer of the Company, who (in his own capacity and on behalf of the Group's management designated for the purposes of the Group's enterprise risk management and internal controls) will report to the audit committee of the Company and also provide a confirmation to the audit committee that the continuing connected transactions of the Company which are subject to the annual review and disclosure requirements under the Listing Rules have been entered into (a) in the ordinary and usual course of business of the Group; (b) on normal commercial terms or better; and (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole; and that the Group's internal control procedures applicable to continuing connected transactions are adequate and effective to ensure that such transactions were so conducted. The audit committee will consider this accordingly.
- The Company's external auditors review the continuing connected transactions (which are subject to the annual review and disclosure requirements under the Listing Rules) annually to check and confirm (among others) whether the pricing terms have been adhered to and whether the relevant caps have been exceeded.
- The independent non-executive Directors review the continuing connected transactions of the Company (which are subject to the annual review and disclosure requirements under the Listing Rules) annually to check and confirm whether such continuing connected transactions are conducted in the ordinary and usual course of business of the Group, on normal commercial terms or better, in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

LISTING RULES REQUIREMENTS

Based on the respective proposed annual caps for the year ending 31 December 2016 for the Product Sales Transaction and the Consolidated Services and Sub-contracting Expense Transaction, the proposed revision of the respective annual caps for the Product Sales Transaction and the Consolidated Services and Sub-contracting Expense Transaction for the year ending 31 December 2016 is subject to the approval of the Independent Shareholders.

LETTER FROM THE BOARD

Based on the maximum amount of the proposed annual caps for the three years ending 31 December 2019 in respect of each of the Continuing Connected Transactions and in view of the connections between the Non-real Property Lease Expense Transaction and the Product Sales Transaction (where in carrying out the Product Sales Transaction and other manufacturing projects, the Group may require the use of the Non-real Properties including specialised equipment and machines), each of the Continuing Connected Transactions constitutes a non-exempt continuing connected transaction for the Company under the Listing Rules. Accordingly, the Continuing Connected Transactions, the proposed annual caps in respect of each of the Continuing Connected Transactions for the three years ending 31 December 2019 and the Supplemental Agreements are subject to the approval of the Independent Shareholders. The Company has established the Independent Board Committee to advise the Independent Shareholders and has appointed First Shanghai as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

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

EGM

A notice convening the EGM to be held at Luxembourg Room, 3/F., Regal Kowloon Hotel, 71 Mody Road, Tsimshatsui, Kowloon, Hong Kong on Wednesday, 21 September 2016 at 10:00 a.m. is set out on pages 51 to 56 of this circular. At the EGM, ordinary resolutions will be proposed for the Independent Shareholders to consider and, if thought fit, to approve the proposed revision of the respective annual caps for the Product Sales Transaction and the Consolidated Services and Sub-contracting Expense Transaction for the year ending 31 December 2016, the Continuing Connected Transactions, the proposed annual caps in respect of each of the Continuing Connected Transactions for the three years ending 31 December 2019 and the Supplemental Agreements.

The ordinary resolutions proposed at the EGM will be determined by way of poll by the Independent Shareholders. Pursuant to Rule 14A.36 of the Listing Rules, any connected person (as defined in the Listing Rules) and any Shareholder and their respective associates with a material interest (other than by virtue of being a Shareholder) in the Continuing Connected Transactions are required to abstain from voting at the EGM. Hon Hai and its associates who in aggregate were interested in 5,081,034,525 Shares (representing approximately 64.37% of the total number of Shares in issue) as at the Latest Practicable Date are required to and will abstain from voting at the EGM in respect of such ordinary resolutions.

A form of proxy for use in connection with the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong as soon as possible and in any event not less than 48 hours before the time of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM should you so wish.

LETTER FROM THE BOARD

RECOMMENDATION

The Independent Board Committee, having taken into account the advice of First Shanghai, is of the view that (a) the Proposed Annual Caps are fair and reasonable; (b) the entering into of the Continuing Connected Transactions and the 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 Continuing Connected Transactions (subject to obtaining the Independent Shareholders' approval, to be amended by the Supplemental Agreements) are fair and reasonable, on normal commercial terms 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 Continuing Connected Transactions, the 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 First Shanghai, the additional information set out in the appendix to this circular and the notice of the EGM.

Yours faithfully,
By Order of the Board
TONG Wen-hsin
Chairman



富智康集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2038)

1 September 2016

Dear Independent Shareholders,

CONTINUING CONNECTED TRANSACTIONS

We refer to the circular dated 1 September 2016 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 Continuing Connected Transactions, the Supplemental Agreements and the Proposed Annual Caps. First Shanghai 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 Continuing Connected Transactions (subject to obtaining the Independent Shareholders’ approval, to be amended by the Supplemental Agreements), the 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, First Shanghai as stated in its letter dated 1 September 2016, we consider that (a) the Proposed Annual Caps are fair and reasonable; (b) the entering into of the Continuing Connected Transactions and the 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 Continuing Connected Transactions (subject to obtaining the Independent Shareholders’ approval, to be amended by the Supplemental Agreements) are fair and reasonable, on normal commercial terms 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 Continuing Connected Transactions, the Supplemental Agreements and the Proposed Annual Caps.

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

Yours faithfully,

Independent Board Committee

LAU Siu Ki

Daniel Joseph MEHAN

CHEN Fung Ming

Independent Non-executive Directors

LETTER FROM FIRST SHANGHAI

The following is the text of a letter received from First Shanghai setting out its advice to the Independent Board Committee and the Independent Shareholders in respect of (i) the proposed revision of the respective annual caps for the year ending 31 December 2016 for the Product Sales Transaction and the Consolidated Services and Sub-contracting Expense Transaction; (ii) the Continuing Connected Transactions; (iii) the respective proposed annual caps in respect of the Continuing Connected Transactions for the three years ending 31 December 2019; and (iv) the Supplemental Agreements for inclusion in this circular.



1 September 2016

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

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our engagement to advise the Independent Board Committee and the Independent Shareholders in respect of (i) the proposed revision of the respective annual caps for the Product Sales Transaction and the Consolidated Services and Sub-contracting Expense Transaction for the year ending 31 December 2016 (the “**2016 Caps**”); (ii) the Continuing Connected Transactions; (iii) the proposed annual cap in respect of each of the Continuing Connected Transactions for each of the three years ending 31 December 2019 (the “**2017–2019 Caps**”); and (iv) the Supplemental Agreements (collectively, the “**Transactions and the Caps**”), the details of which are set out in the circular of the Company to the Shareholders dated 1 September 2016 (the “**Circular**”), of which this letter forms part. Unless the context otherwise requires, terms used in this letter shall have the same meanings as those defined in the Circular.

The Group has been conducting the Continuing Connected Transactions with the Hon Hai Group from time to time for its business operations. The Company envisages that the respective annual caps for the Product Sales Transaction and the Consolidated Services and Sub-contracting Expense Transaction (being two of the Continuing Connected Transactions) for the year ending 31 December 2016 may not be sufficient and proposes to revise such annual caps. Moreover, each of the framework agreements underlying the Continuing Connected

LETTER FROM FIRST SHANGHAI

Transactions currently has a term up to 31 December 2016, and therefore the Company and Hon Hai entered into the Supplemental Agreements on 11 August 2016, conditional upon obtaining the Independent Shareholders' approval, to extend such term up to 31 December 2019. Accordingly, the Company has also proposed the respective annual caps of the Continuing Connected Transactions for each of the three years ending 31 December 2019.

Hon Hai is the ultimate controlling shareholder of the Company and is, therefore, a connected person of the Company, and each of the Continuing Connected Transactions constitutes a continuing connected transaction for the Company under the Listing Rules. As stated in the letter from the Board in the Circular, the Transactions and the Caps are subject to approval by the Independent Shareholders at the EGM.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Messrs. Lau Siu Ki and Chen Fung Ming and Dr. Daniel Joseph Mehan, has been established to advise the Independent Shareholders in respect of the Transactions and the Caps. We, First Shanghai Capital Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

Within the past two years from the Latest Practicable Date, apart from our current engagement as the independent financial adviser in respect of the Transactions and the Caps, we were engaged as independent financial adviser by the Company in relation to certain continuing connected transaction matters as detailed in the circular of the Company dated 7 October 2014. Given (i) our independent role in this previous engagement; and (ii) our fee for this previous engagement represented an insignificant percentage of the revenue of our parent group, we consider this previous engagement would not affect our independence to form our opinion in respect of the Transactions and the Caps.

In putting forth our opinion and recommendation, we have relied on the accuracy of the information and representations included in the Circular and provided to us by the management of the Group, and have assumed that all such information and representations made or referred to in the Circular and provided to us by the management of the Group in all material respects were true at the time they were made and continued to be true up to the Latest Practicable Date. We have also assumed that all statements of belief, opinion and intention made in the Circular were reasonably made after due enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the management of the Group and have been advised that no material facts have been withheld or omitted from the information provided and referred to in the Circular. We consider that we have reviewed sufficient information to reach an informed view and to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice. We have not, however, conducted any independent verification of the information included in the Circular and provided to us by the management of the Group nor have we conducted any form of investigation into the business, affairs or future prospects of the Group and the Hon Hai Group. Notwithstanding the foregoing, we have formulated our opinion and recommendation with due skill and care and have made due inquiry before making such formulation.

LETTER FROM FIRST SHANGHAI

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion on the Transactions and the Caps, we have taken into account the following principal factors and reasons:

1. Background to and reasons for the Continuing Connected Transactions and the Supplemental Agreements

The Group is a vertically integrated manufacturing service provider for the handset industry worldwide. Hon Hai, whose shares are listed on the Taiwan Stock Exchange Corporation, is the ultimate controlling shareholder of the Company. The Hon Hai Group is a leading global manufacturing service provider in the 3C industries.

The Group has been conducting the Continuing Connected Transactions with the Hon Hai Group from time to time for its business operations. The following table summarises the nature of and the major reasons for the Continuing Connected Transactions:

| | Nature | Major reasons |
|----------------------------------|--|---|
| Purchase Transaction | <ul style="list-style-type: none">• The Group purchases materials and components from the Hon Hai Group. | <ul style="list-style-type: none">(i) The Hon Hai Group is a leading 3C industry player providing vertically integrated manufacturing services.(ii) Several members of the Hon Hai Group are Approved Vendors and the customers of the Group may source materials and components from Approved Vendors, including these members, through the Group. |
| Product Sales Transaction | <ul style="list-style-type: none">• The Group sells parts or other products to the Hon Hai Group. | <ul style="list-style-type: none">(i) The Group can generate more income by the sales of parts or products under the Product Sales Transaction, the transactions of which are revenue in nature.(ii) Driven by the sales of parts or products under the Product Sales Transaction, the Group can increase asset utilisation rate and achieve economies of scale (particularly at times when the Group has surplus production capacity) given the parts or products of the Group could be sold to the Hon Hai Group giving rise to the higher manufacturing needs for the production of such parts or products. |

LETTER FROM FIRST SHANGHAI

| | Nature | Major reasons |
|--|--|---|
| Non-real Property Lease Expense Transaction | <ul style="list-style-type: none"> ● The Group leases the Non-real Properties from the Hon Hai Group. | <ul style="list-style-type: none"> (i) In carrying out the Product Sales Transaction and other manufacturing projects, the Group may require the use of the Non-real Properties, which include specialised equipment and machines. (ii) The Group can save capital expenditures given the Group can lease the Non-real Properties from the Hon Hai Group thus incurring lease expenses rather than to purchase the Non-real Properties (including specialised equipment and machines) from third parties thus incurring upfront substantial capital expenditures. |
| Consolidated Services and Sub-contracting Expense Transaction | <ul style="list-style-type: none"> ● The Group procures services, including research and development services, design services, repair services and sub-contracting services, from the Hon Hai Group. | <ul style="list-style-type: none"> (i) The Group can enhance its handset manufacturing capabilities and related capacity in its handset manufacturing business given the Group can leverage on the manufacturing capabilities and capacities of the Hon Hai Group, which is a manufacturing service provider in the 3C industries. (ii) The Group can obtain greater flexibility in capacity planning to carry on its business more efficiently given the Group can leverage on the production capacity of the Hon Hai Group when certain production capacity of the Group has already been substantially utilised. |
| Equipment Purchase Transaction | <ul style="list-style-type: none"> ● The Group purchases equipment from the Hon Hai Group. | <ul style="list-style-type: none"> (i) The Group can obtain customised industry equipment to better suit the production needs of the Group. (ii) The Group can obtain equipment maintenance services from the Hon Hai Group conveniently. |

LETTER FROM FIRST SHANGHAI

We have reviewed the latest annual report of the Company and we understand the Group is a manufacturing service provider for the handset industry worldwide, offering a comprehensive range of handset components and manufacturing services, which include unique product development and design, casings, components, full-system assembly etc and repair and other after-sales services. In respect of our understanding of the aforementioned nature of the Continuing Connected Transactions, we have further reviewed sample documents underlying each category of the Continuing Connected Transactions, including (i) purchase orders under the Purchase Transaction to purchase materials and components; (ii) purchase orders under the Product Sales Transaction to sell parts or other products to the Hon Hai Group; (iii) lease contracts under the Non-real Property Lease Expense Transaction to lease Non-real Properties from the Hon Hai Group; (iv) purchase orders under the Consolidated Services and Sub-contracting Expense Transaction to procure services from the Hon Hai Group; and (v) purchase orders under the Equipment Purchase Transaction to purchase equipment from the Hon Hai Group. We understand the aforesaid major reasons for the Continuing Connected Transactions could be achievable after taking into account the nature of each of the Continuing Connected Transactions and the principal business of the Group.

Each of the framework agreements underlying the Continuing Connected Transactions currently has a term up to 31 December 2016, and therefore the Company and Hon Hai entered into the Supplemental Agreements on 11 August 2016, conditional upon obtaining the Independent Shareholders' approval, to extend such term up to 31 December 2019.

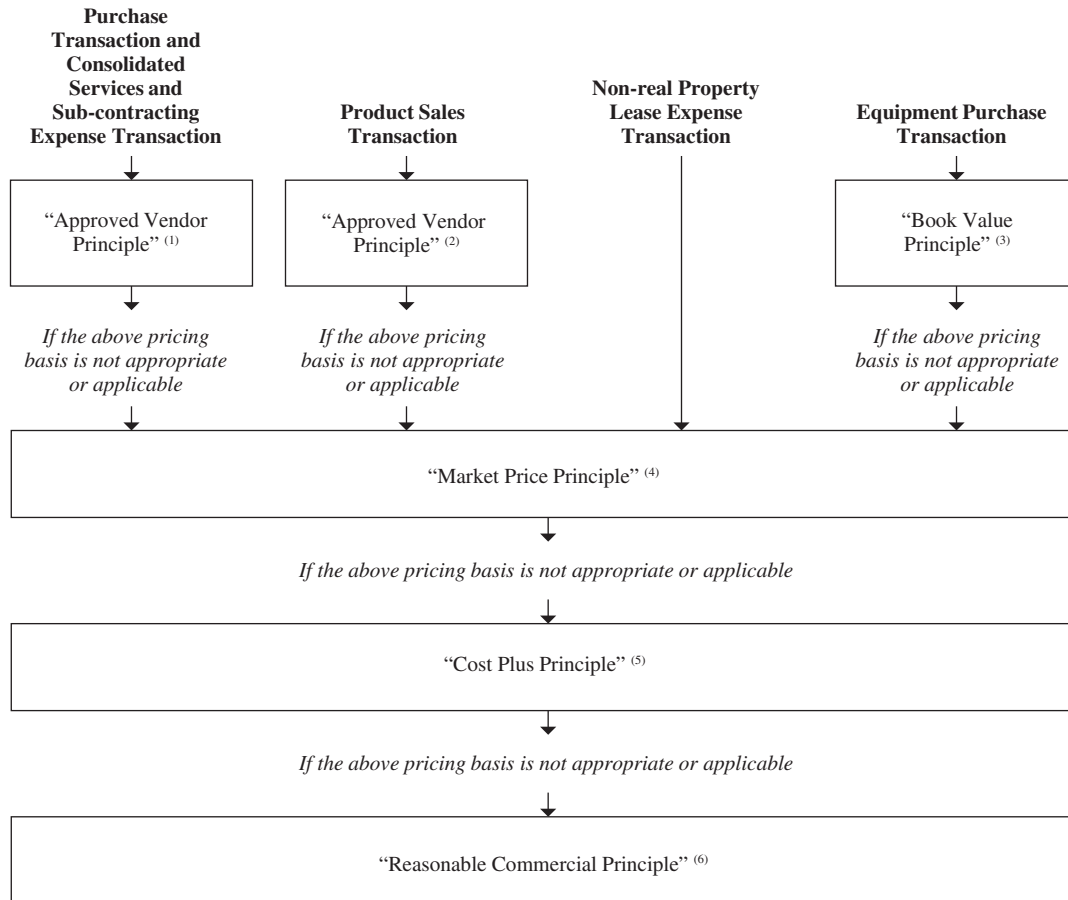
Taking into account, in particular, (i) the Hon Hai Group is a leading 3C industry player providing vertically integrated manufacturing services and several of its members are Approved Vendors; (ii) the Group can leverage on the platform of the Hon Hai Group to more efficiently facilitate the business operations, better serve the customers and enhance the competitiveness of the Group through the Continuing Connected Transactions; (iii) the Group can generate more income, increase asset utilisation rate and achieve economies of scale via the Product Sales Transaction; (iv) the framework agreements underlying the Continuing Connected Transactions currently will soon expire on 31 December 2016 and the Supplemental Agreements serve to extend the term up to 31 December 2019, conditional upon obtaining the Independent Shareholders' approval; and (v) the respective terms of the Continuing Connected Transactions (subject to obtaining the Independent Shareholders' approval, to be amended by the Supplemental Agreements) are fair and reasonable and on normal commercial terms as discussed below, we are of the view that the entering into of the Continuing Connected Transactions and the Supplemental Agreements is in the ordinary and usual course of business of the Group and, together with the 2016 Caps and the 2017–2019 Caps, is in the interests of the Company and the Shareholders as a whole.

2. Principal terms of the Continuing Connected Transactions and the Supplemental Agreements

The Supplemental Agreements extend the term of each of the framework agreements underlying the Continuing Connected Transactions up to 31 December 2019, subject to the approval of the Independent Shareholders at the EGM. The Supplemental Agreements do not

LETTER FROM FIRST SHANGHAI

alter the pricing terms of the Continuing Connected Transactions. The following flow chart summarises the pricing bases of the Continuing Connected Transactions based on the letter from the Board in the Circular and the advice by the management of the Group:



Notes:

- Under the circumstances where (i) an independent customer of the Group (the “**Independent Customer**”) specifies and requests certain products or services from the Group; (ii) the Hon Hai Group is an Approved Vendor of the Independent Customer and acts as a supplier to the Group; and (iii) the Group plans to procure materials or components or services from the Hon Hai Group, such pricing basis shall be adopted, pursuant to which the Hon Hai Group shall directly negotiate and then agree the pricing terms of the materials or components or services with the Independent Customer, where the Group would then confirm the pricing terms with the Independent Customer based on such negotiation and agreement. Despite the fact that the Group is not directly involved in the negotiation and agreement of the pricing terms, (i) the Hon Hai Group acts as the supplier of the Group given the Hon Hai Group is an Approved Vendor of the Independent Customer; (ii) the pricing terms of the materials or components or services are primarily set with the Independent Customer after negotiation and agreement; (iii) the Hon Hai Group would not charge any fee in addition to the pricing terms negotiated and agreed with the Independent Customer; and (iv) the Group has the discretion to confirm whether to accept such pricing terms to procure materials or components or services from the Hon Hai Group to be used in the production of products by the Group to be sold to the Independent Customer after having regard to the interests of the Group in particular whether the cost of the materials or components or services purchased from the Hon Hai Group has been taken into account in the selling price of the relevant final product to the Independent Customer.

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2. Similar to note 1, under the circumstances where (i) an independent customer of the Hon Hai Group specifies and requests certain products from the Hon Hai Group; (ii) the Group has been approved or otherwise designated by such independent customer as a supplier of the Hon Hai Group; and (iii) the Hon Hai Group plans to procure parts or other products from the Group, such pricing basis shall be adopted, pursuant to which the Group shall directly negotiate and then agree the pricing terms of the parts or other products with such independent customer, where the Hon Hai Group would then confirm the pricing terms with such independent customer based on such negotiation and agreement.
3. The price shall be based on the book value of the equipment according to the accounting records of the relevant member of the Hon Hai Group.
4. The price shall be derived from the price or quotation of comparable transactions with independent third parties.
5. The price shall make reference to the percentage margin of comparable transactions with independent third parties.
6. The price shall take into account factors applicable to the special circumstances on a case by case basis, such as in regard to inventory optimisation management, Non-real Properties utilisation management, capacity utilisation management and equipment utilisation management with reference to the corresponding Continuing Connected Transactions.

In respect of the pricing bases set out in the above chart, we are advised by the management of the Group that the pricing basis adopted under the Continuing Connected Transactions could vary from case to case given the difference in the nature of the subject transaction as illustrated in the following two examples:

- (a) the first example is that (i) the Approved Vendor Principle may not be applicable because, for example, the Hon Hai Group may not be the Approved Vendor for the subject transaction; (ii) the Market Price Principle may not be applicable for a tailor-made product or service which is unique and has no readily available market price; (iii) the Cost Plus Principle may not be applicable when the margin of a comparable product or service with independent third party is not available for reference; and (iv) the Reasonable Commercial Principle could be applied under which optimisation and utilisation management would be considered;
- (b) another example is that, for the Equipment Purchase Transaction, in general (i) if the equipment is used, the Book Value Principle would apply; (ii) if the equipment is new, the Book Value Principle would not apply and the Market Price Principle would apply given market prices based on independent third parties may be available; (iii) if the equipment is new and is uniquely manufactured by the Hon Hai Group, such equipment may not have a market price, therefore the Cost Plus Principle would be applied; and (iv) the Reasonable Commercial Principle could be applied if none of the above pricing bases is appropriate or applicable; and
- (c) the adoption of the type of pricing basis is determined by the purchase departments (for the Continuing Connected Transactions other than the Product Sales Transaction) and the operation departments (for the Product Sales Transaction) of the Group after taking into account the aforesaid factors.

LETTER FROM FIRST SHANGHAI

In respect of the payment terms, according to the letter from the Board in the Circular, (i) the payments of the Continuing Connected Transactions (other than the Equipment Purchase Transaction) are usually settled within 90 days after the date of the relevant invoice or the accounting record posting date for the transaction; and (ii) the payments of the Equipment Purchase Transaction are usually made by the Group within 120 days after the date of the relevant invoice. As such, we have reviewed the annual report of the Company for the year ended 31 December 2015, where we note that (i) the Group normally allows an average credit period ranging from 30 to 90 days to its trade customers; (ii) over 90% of the trade receivables and the trade payables were aged within 90 days as at 31 December 2015; (iii) the credit period of the Continuing Connected Transactions (other than the Equipment Purchase Transaction) of 90 days is in line with the aforesaid; and (iv) the credit period of the Equipment Purchase Transaction is longer than 90 days, which provides a longer credit term for the Group to settle its purchase payments.

In respect of the internal control measures of the Group for the Continuing Connected Transactions, we are advised by the management of the Group that the relevant departments of the Group are responsible for, whichever applicable to the relevant pricing basis, (i) the review of documents to ensure the pricing terms are determined based on the Hon Hai Group's or the Group's negotiation and agreement with independent customer, where the Group or the Hon Hai Group is approved or designated by such independent customer; (ii) the review of relevant accounting records to ensure that the pricing terms are determined based on the book value of equipment; (iii) the review of recent transaction(s) with independent third parties, if available, to obtain the market prices and ensure that the pricing terms with the Hon Hai Group are no less favourable than such market prices; (iv) the assessment of whether the margins of prices determined on cost plus basis are no less favourable than those for transactions conducted with independent third parties; and (v) the assessment of whether the reasonable commercial principles are in the interests of the Group as discussed above. In addition, the terms of the Continuing Connected Transactions have been and will continue to be reviewed by the auditors and the independent non-executive Directors in accordance with the Listing Rules on an annual basis.

In respect of our work done, we have reviewed at least two sets of sample documents (other than the circumstances specified below) in connection with each type of pricing policy under each category of the Continuing Connected Transactions carried out during the period from 1 January 2015 up to the Latest Practicable Date (the "**Review Period**"). We consider the Review Period to be a suitable timeframe for our sampling and evaluating the current application of pricing policies and current internal control measures of the Group in practice. In addition, we are advised by the management of the Group and we understand that the number of actual transactions carried out under the Continuing Connected Transactions is enormous, i.e. over 18,000 Continuing Connected Transactions actually took place during the year ended 31 December 2015. Taking into account, in particular, (i) a main purpose of our review is to obtain an understanding about how the pricing mechanism (including the pricing policies) of the Continuing Connected Transactions works in practice; (ii) the sample size basis covers each type of pricing policy under each category of the Continuing Connected Transactions during the Review Period, which is a recent period; (iii) the same pricing policy might apply for several categories of the Continuing Connected Transactions, such as the Market Price Principle, therefore we have reviewed samples of the Market Price Principle for

LETTER FROM FIRST SHANGHAI

more than just one category of the Continuing Connected Transactions; (iv) the terms of the Continuing Connected Transactions have been and will continue to be reviewed by the auditors in accordance with the Listing Rules on an annual basis; and (v) the enormous number of actual transactions carried out under the Continuing Connected Transactions, we consider our sample size basis (i.e. two sets for each type of pricing policy under each category of the Continuing Connected Transactions as aforesaid) to be acceptable and in line with our usual practice. Our work done is summarised as follows:

(i) *The Approved Vendor Principle under the Purchase Transaction, the Consolidated Services and Sub-contracting Expense Transaction and the Product Sales Transaction*

- We are advised by the management of the Group that such principle was not adopted for the Product Sales Transaction during the Review Period.
- Based on our discussion with the management of the Group and our review of the sample documents for the Purchase Transaction and the Consolidated Services and Sub-contracting Expense Transaction, we understand that the unit prices/fees payable to the Hon Hai Group were determined based on the prices specified by the Independent Customer in the reviewed sample documents.
- Based on our discussion with the management of the Group and (i) our review of a sample bill of materials setting out the Approved Vendors, which cover members of the Hon Hai Group and independent suppliers, of an Independent Customer in respect of specified material procurement by the Group; and (ii) the Independent Customers in the reviewed sample transactions are renowned in the industry, we understand the approved vendor mechanism (i) is used by the Independent Customers to regulate the suppliers, qualities and prices of materials; and (ii) is a normal industry practice.
- In respect of the Approved Vendor Principle for the Purchase Transaction and the Consolidated Services and Sub-contracting Expense Transaction, we are advised by the management of the Group that (i) before confirming whether to procure materials/services from the Hon Hai Group, the Group would assess the benefits of manufacturing products for the Independent Customer with, among other resources, the materials/services procured from the Hon Hai Group; and (ii) the Group focuses on the negotiation with the Independent Customer of the price for the sale of products to the Independent Customer rather than focuses on the cost of procuring materials/services from Approved Vendors, such as the Hon Hai Group. We have reviewed the benefits of such sales to the Independent Customer after taking into account, among other costs, the costs to procure materials/services from the Hon Hai Group, and we noted that such sales to the Independent Customer were profitable or beneficial to the Group. Given (i) the fees of the specific types of materials/services are directly negotiated with the Independent Customers; (ii) the Hon Hai Group would not charge any fee in addition to the pricing terms negotiated and agreed with the Independent Customer; and (iii) the assessment of the benefits of the Group for the sales to the Independent Customer before procuring materials/services from the Hon Hai

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Group, we consider such principle for the procurements from the Hon Hai Group to be fair and reasonable and no less favourable than the prices with independent third parties.

- In respect of the Approved Vendor Principle for the Product Sales Transaction, given (i) the fees of the specific types of products are directly negotiated with the independent customers; and (ii) the Group shall directly negotiate and then agree the pricing terms of the parts or other products with independent customers, we consider such principle to be fair and reasonable and no less favourable than the prices with independent third parties.

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

- Based on our discussion with the management of the Group and our review of the sample documents, we understand that the prices payable to the Hon Hai Group were determined based on the book values on the accounting records in the reviewed sample documents.
- We also understand that such principle was applied mainly for used equipment. Given used equipment (rather than new equipment, which mainly adopts the Market Price Principle) is less likely to have a comparable market quotation and the book value has taken into account depreciation of such equipment, we consider the Book Value Principle to be fair and reasonable.

(iii) The Market Price Principle under each of the Continuing Connected Transactions

- Based on our discussion with the management of the Group and our review of the sample documents, we understand that (i) in general, the Group selected at least one independent comparable transaction or (if applicable) three quotations from independent parties within three months of the proposed transaction with the Hon Hai Group to determine the market price or the average market price; and (ii) the prices with the Hon Hai Group were no less favourable than the prices under the independent transaction or (if applicable) quotations from independent parties in the reviewed sample documents. Given the specific nature of the subject product/service underlying the Continuing Connected Transactions (e.g. the specifications of product/service change due to changes in technological changes and market conditions) as detailed in the letter from the Board in the Circular, we consider the selection of at least one independent comparable transaction or (if applicable) three quotations from independent parties from a recent period to be acceptable.
- Given the prices with the Hon Hai Group make reference to and are no less favourable than the prices with independent third parties, we consider the Market Price Principle to be fair and reasonable.

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(iv) The Cost Plus Principle under each of the Continuing Connected Transactions

- We are advised by the management of the Group that such principle was not adopted for the Purchase Transaction and the Equipment Purchase Transaction during the Review Period.
- We are advised by the management of the Group that the independent comparable transactions are generally based on the internal records of the Group with independent parties, such as the margin for performing comparable manufacturing and leasing for independent parties.
- Based on our review of the sample documents, we understand that (i) in general, the Group selects one independent comparable transaction within three months of the proposed transaction with the Hon Hai Group to determine the market margin; and (ii) the margins with the Hon Hai Group were no less favourable than the margin under the independent comparable transaction in the reviewed sample documents. Given the specific nature of the subject product/service underlying the Continuing Connected Transactions (e.g. the specifications of product/service change due to changes in technological changes and market conditions) as detailed in the letter from the Board in the Circular, we consider the selection of one independent comparable transaction from independent party from a recent period to be acceptable.
- Given the margins with the Hon Hai Group make reference to and are no less favourable than the margins with independent third parties, we consider the Cost Plus Principle to be fair and reasonable.

(v) The Reasonable Commercial Principle under each of the Continuing Connected Transactions

- We are advised by the management of the Group that such principle was not adopted for any of the Continuing Connected Transactions during the Review Period.
- Regarding the application of the Reasonable Commercial Principle, we are advised by the management of the Group that (i) for the Continuing Connected Transactions (other than the Product Sales Transaction), after taking into account the optimisation and utilisation management of the Hon Hai Group, the prices paid by the Group may be lower than the costs and market prices and (in relation to the Equipment Purchase Transaction) book value; and (ii) for the Product Sales Transaction, the Group may negotiate a price with the Hon Hai Group if the products could not be actually sold at higher prices in the market and the Group does not consider that keeping such inventory would be in its interests having regard to factors such as inventory obsolescence in the rapidly changing handsets industry.

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- Given (i) the prices paid by the Group may be lower than the costs and market prices and (in relation to the Equipment Purchase Transaction) book value; (ii) the consideration of circumstances including inventory obsolescence in the rapidly changing handsets industry; and (iii) such principle would only be applied when other principles such as the Market Price Principle and the Cost Plus Principle are not applicable, we consider the Reasonable Commercial Principle to be fair and reasonable.

During our review process as detailed above, we have not identified any factor which caused us to doubt the application of the pricing mechanism by the Group in respect of the Continuing Connected Transactions.

We have also reviewed the two most recent annual reports of the Company and we note that (i) the auditors had issued their unqualified letters containing their findings and conclusions in respect of the Continuing Connected Transactions in accordance with Rule 14A.56 of the Listing Rules; and (ii) the independent non-executive Directors had reviewed and confirmed that the Continuing Connected Transactions had been entered into, among other things, on normal commercial terms or better and in accordance with the relevant agreements governing them on terms that are fair and reasonable for each of the years ended 31 December 2014 and 2015.

Taking into account the above factors, in particular, (i) the pricing terms are based on either the price agreed with independent customers, the book value, the average market price, the price based on cost plus principle or the price based on reasonable commercial principles as described in this section; (ii) the internal control measures of the Group described in this section to ensure that the pricing terms of the Continuing Connected Transactions are based on either negotiation and agreement with independent customers or book value or no less favourable than the terms with independent third parties or on arm's length basis, where applicable; and (iii) no alteration is made by way of the Supplemental Agreements to the pricing terms of the Continuing Connected Transactions, which have been and will continue to be reviewed by the auditors and the independent non-executive Directors in accordance with the Listing Rules, we are of the view that sufficient internal control measures are in place and the respective terms of the Continuing Connected Transactions (subject to obtaining the Independent Shareholders' approval, to be amended by the Supplemental Agreements) are fair and reasonable and on normal commercial terms so far as the Independent Shareholders are concerned.

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3. 2016 Caps and 2017–2019 Caps

The following table sets out, in respect of each of the Continuing Connected Transactions, (i) the actual transaction amounts for the year ended 31 December 2015 and for the six months ended 30 June 2016; (ii) the estimated transaction amount for the year ending 31 December 2016; (iii) the 2016 Cap for the year ending 31 December 2016; and (iv) the 2017–2019 Caps for each of the three years ending 31 December 2019.

| | Actual transaction amount | | Estimated transaction amount | 2016 Cap | 2017–2019 Caps | | |
|---|---|---|--|--|--|--|----------------------|
| | For the year ended 31 December 2015 <i>(audited)</i> US\$ million | For the six months ended 30 June 2016 <i>(unaudited)</i> US\$ million | For the year ending 31 December 2016 US\$ million | For the year ending 31 December 2016 US\$ million | For the year ending 31 December 2017 US\$ million | For the year ending 31 December 2018 US\$ million | 2019 US\$ million |
| Purchase Transaction | 1,009 | 309 | 869 | | 977 | 1,045 | 1,118 |
| Product Sales Transaction | 481 | 301 | 846 | 889 <i>(existing cap is 603)</i> | 951 | 1,018 | 1,089 |
| Non-real Property Lease Expense Transaction | 16 | 8 | 16 | | 19 | 20 | 21 |
| Consolidated Services and Sub-contracting Expense Transaction | 205 | 105 | 296 | 311 <i>(existing cap is 210)</i> | 333 | 356 | 381 |
| Equipment Purchase Transaction | 100 | 30 | 145 | | 163 | 175 | 187 |

We have reviewed the calculation of the 2016 Caps and the 2017–2019 Caps and we understand:

- the 2016 Caps and the 2017–2019 Caps are fundamentally based upon the estimated transaction amounts for the year ending 31 December 2016 (the “**2016 Amounts**”);
- the 2016 Amounts are based on the sum of the actual transaction amounts for the first half of 2016 and the estimated transaction amounts for the second half of 2016, where:
 - (a) for the Purchase Transaction, the Product Sales Transaction and the Consolidated Services and Sub-contracting Expense Transaction, the estimated transaction amounts for the second half of 2016 are based on a growth rate of approximately 81% (the “**H2 Growth Rate**”) compared with the actual transaction amounts for the first half of 2016. The H2 Growth Rate is the targeted revenue growth of the Group for the second half of 2016 as compared with the first half of 2016;

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- (b) for the Non-real Property Lease Expense Transaction, the estimated transaction amount for the second half of 2016 is expected to be the same as the actual transaction amount for the first half of 2016; and
- (c) for the Equipment Purchase Transaction, the estimated transaction amount for the second half of 2016 is based on the capital expenditure budget of the Group for the second half of 2016 (the “**Capex Budget**”);
- the 2016 Caps of the Product Sales Transaction and the Consolidated Services and Sub-contracting Expense Transaction equal their respective 2016 Amounts multiplied by a buffer of 5% (the “**Buffer**”); and
- the 2017–2019 Caps of each of the Continuing Connected Transactions are calculated based on (i) their respective 2016 Amounts; (ii) the Buffer; and (iii) the general compound annual growth rate of 7% (the “**General Growth Rate**”), where the General Growth Rate is the average of the growth rates of the revenue of the Group from 2013 to 2016 (calculated based on the revenue of the Group for each of the four years ended 31 December 2015 and the targeted revenue of the Group for the year ending 31 December 2016).

In respect of the H2 Growth Rate of approximately 81%, which represents the estimated growth of the revenue of the Group for the second half of 2016 as compared with the first half of 2016, (i) we have reviewed the target revenue of the Group for the second half of 2016 and we are advised by the management of the Group that such target is based on estimations which have primarily made reference to the discussions with the customers of the Group; (ii) we have been provided sample correspondences between the Group and its customers, where we are given to understand that the estimations underlying the target revenue have made reference to the discussions with the customers of the Group regarding upcoming demands; and (iii) we note that the H2 Growth Rate reflects the most recent growth trend of the business of the Group, and therefore we consider that the H2 Growth Rate to be acceptable for the purpose of determining the proposed annual caps.

In respect of the estimation of the transaction amounts for the second half of 2016 of the Continuing Connected Transactions, we are advised by the management of the Group that (i) in general, the Continuing Connected Transactions (which are related to, among other things, equipment purchase, sub-contracting, product sales and material procurement as discussed above) are closely related to the principal business operations of the Group of handsets manufacturing, where their transaction amounts are generally expected to grow in line with the business scale of the Group, and therefore the H2 Growth Rate is expected to be generally applicable to these transactions; (ii) the Non-real Property Lease Expense Transaction is expected to maintain at the level of the first half of 2016 given, among other factors, the expected higher capital expenditure to purchase equipment, where the need for leasing equipment and machines may not increase; and (iii) the Equipment Purchase Transaction is expected to increase with reference to the Capex Budget in order to enhance production automation and to cope with manufacturing demands. As part of our work done, we have reviewed the Capex Budget and sample purchase orders in relation to the Capex Budget.

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Taking into account the aforesaid, we consider the estimation of the transaction amounts for the second half of 2016 of the Continuing Connected Transactions to be acceptable for the purpose of determining the proposed annual caps.

In respect of the Buffer of 5%, we understand that (i) it is relatively insignificant, particularly when compared to the H2 Growth Rate; and (ii) it may mitigate the burden of the Group to bear additional costs to conduct another revision of the relevant annual cap(s) in the near future, and therefore we consider the Buffer to be acceptable for the purpose of determining the proposed annual caps.

In respect of the General Growth Rate of 7%, we understand that (i) it has taken into account the revenue growth of the Group for the recent years, where it reflects a more general and longer term growth trend of the Group; and (ii) the Continuing Connected Transactions are generally closely related to the normal business operations of the Group, and therefore we consider the General Growth Rate to be acceptable for the purpose of determining the proposed annual caps.

Based on the foregoing, in particular, (i) our review of the calculation of the 2016 Caps and the 2017–2019 Caps, which are based on factors including the estimated transaction amounts for the year ending 31 December 2016, the Buffer and the General Growth Rate; and (ii) our analysis for each of the factors above, we are of the view that the bases of determining the 2016 Caps and the 2017–2019 Caps are fair and reasonable so far as the Independent Shareholders are concerned. Nonetheless, the Independent Shareholders should note that the 2016 Caps and the 2017–2019 Caps and the assumptions involved should not be construed as an assurance or forecast by the Group of its future profitability, income nor expenditures.

RECOMMENDATION

Having considered the above, we are of the opinion that the entering into of the Continuing Connected Transactions and the Supplemental Agreements is in the ordinary and usual course of business of the Group and, together with the 2016 Caps and the 2017–2019 Caps, is in the interests of the Company and the Shareholders as a whole. We are also of the opinion that the respective terms of the Continuing Connected Transactions (subject to obtaining the Independent Shareholders' approval, to be amended by the Supplemental Agreements) are on normal commercial terms and, together with the bases of determining the 2016 Caps and the 2017–2019 Caps, are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the ordinary resolutions to approve the Transactions and the Caps at the EGM.

Yours faithfully,
For and on behalf of

First Shanghai Capital Limited

Fanny Lee
Managing Director

Allen Wang
Director

Note: Ms. Fanny Lee and Mr. Allen Wang have been responsible officers of Type 6 (advising on corporate finance) regulated activity under the SFO since 2006 and 2014, respectively. Both of them have participated in the provision of independent financial advisory services for various connected transactions involving companies listed in Hong Kong.

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) 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 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 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 |
|------------------|---|---------------------------------|---------------------------------------|--|
| TONG Wen-hsin | Company | Personal Interest | 2,533,266 | 0.0321% |
| | Hon Hai | Personal Interest | 142,117 | 0.0009% |
| CHIH Yu Yang | Company | Personal Interest | 11,975,955 | 0.1517% |
| | Hon Hai | Personal Interest | 1,591,995 | 0.0102% |
| | Chiun Mai | Personal Interest | 1,000 | 0.0007% |
| | Communication Systems, Inc. ("CMCS") (Note) | | | |

Note: The Company indirectly, through its wholly-owned subsidiaries, holds approximately 86.65% 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) 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 they were taken or deemed to have under such provisions of the SFO), or 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 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 or chief executive of the Company, 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 | Beneficial owner | 5,081,034,525 | 64.37% |
| Hon Hai (<i>Notes</i>) | Interest of a controlled corporation | 5,081,034,525 | 64.37% |

Notes:

1. Foxconn (Far East) Limited is a direct wholly-owned subsidiary of Hon Hai, and therefore, Hon Hai is taken or deemed 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. 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. COMPETING BUSINESS INTEREST OF DIRECTORS

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

4. QUALIFICATION

The following is the qualification of the expert who has given an opinion or advice on the information contained in this circular:

| Name | Qualification |
|----------------|---|
| First Shanghai | a licensed corporation under the SFO to carry out type 6 (advising on corporate finance) regulated activity |

5. CONSENT

First Shanghai has 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 in the form and context in which they respectively appear herein.

6. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, save as disclosed in the interim results announcement of the Company dated 11 August 2016 for the six months ended 30 June 2016, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2015, being the date to which the latest published audited financial statements of the Group were made up.

7. MISCELLANEOUS

- (a) None of the Directors has entered into a service contract with the Company which does not expire or which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.
- (b) As at the Latest Practicable Date, First Shanghai was not beneficially interested in the share capital of any member of the Group and did not have any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group. As at the Latest Practicable Date, none of the Directors or First Shanghai had any interest, either directly or indirectly, in any assets which have been, since 31 December 2015 being the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

- (c) The branch share registrar of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited.
- (d) The principal share registrar of the Company is Royal Bank of Canada Trust Company (Cayman) Limited.
- (e) The English text of this circular shall prevail over the Chinese text, in case of any inconsistency.

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following agreements are available for inspection during normal business hours at Suites 3201–3204, One Exchange Square, 8 Connaught Place, Hong Kong from the date of this circular to the date of the EGM (both dates inclusive) and also at the EGM:

- (a) the Supplemental Agreements;
- (b) the Consolidated Services and Sub-contracting Expense Agreement;
- (c) the Framework Equipment Purchase Agreement;
- (d) the Framework Non-real Property Lease Expense Agreement;
- (e) the Framework Product Sales Agreement;
- (f) the Purchase Agreement;
- (g) the Framework Equipment Sale Agreement;
- (h) the Framework Lease Expense Agreement;
- (i) the General Services Expense Agreement;
- (j) the Sub-contracting Income Agreement;
- (k) the supplemental agreement of 11 August 2016 to the Framework Equipment Sale Agreement;
- (l) the supplemental agreement of 11 August 2016 to the Framework Lease Expense Agreement;
- (m) the supplemental agreement of 11 August 2016 to the General Services Expense Agreement; and
- (n) the supplemental agreement of 11 August 2016 to the Sub-contracting Income Agreement.

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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)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of the shareholders of FIH Mobile Limited (the “Company”) will be held at Luxembourg Room, 3/F., Regal Kowloon Hotel, 71 Mody Road, Tsimshatsui, Kowloon, Hong Kong on Wednesday, 21 September 2016 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 transactions contemplated under the framework product sales agreement (the “Framework Product Sales 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”) and Innolux Corporation (an associate of Hon Hai formerly known as Innolux Display Corporation and then Chimei Innolux Corporation) (“Innolux”) on 18 January 2005 (as amended by the respective supplemental agreements dated 28 February 2006, 24 October 2007, 19 November 2010 and 17 October 2013) (the “Product Sales Transaction”) for the year ending 31 December 2016 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;
- (b) the proposed annual cap as set out in the circular of the Company dated 1 September 2016 (the “Circular”) in respect of the Product Sales Transaction for the year ending 31 December 2016 be and is hereby approved in all respects; and
- (c) 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 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 Product Sales Transaction for the year ending 31 December 2016 and/or the said annual cap.”

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2. “THAT

- (a) the transactions contemplated under the framework consolidated services and sub-contracting agreement (the “Consolidated Services and Sub-contracting Expense Agreement”) entered into among the Company, Hon Hai, PCE Industry Inc. (a subsidiary of Hon Hai) and Sutech Industry Inc. (a wholly-owned subsidiary of the Company) on 24 October 2007 (as amended by the respective supplemental agreements dated 19 November 2010 and 17 October 2013) (the “Consolidated Services and Sub-contracting Expense Transaction”) for the year ending 31 December 2016 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;
- (b) the proposed annual cap as set out in the Circular in respect of the Consolidated Services and Sub-contracting Expense Transaction for the year ending 31 December 2016 be and is hereby approved in all respects; and
- (c) 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 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 Consolidated Services and Sub-contracting Expense Transaction for the year ending 31 December 2016 and/or the said annual cap.”

3. “THAT:

- (a) the terms of the fifth supplemental agreement to 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 11 August 2016 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 materials and components supply agreement entered into among the Company, Hon Hai, Innolux and 鴻準精密工業股份有限公司 (Foxconn Technology Company Limited for identification purposes only) (both associates of Hon Hai) on 19 January 2005 (as amended by the respective supplemental agreements dated 28 February 2006, 24 October 2007, 19 November 2010 and 17 October 2013) and further amended by the Supplemental Purchase Agreement (the “Purchase Transaction”) for the three years ending 31 December 2019 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 Purchase Transaction for the three years ending 31 December 2019 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 Purchase Agreement and/or the Purchase Transaction for the three years ending 31 December 2019 and/or the said annual caps."

4. **“THAT**

- (a) the terms of the fifth supplemental agreement to the Framework Product Sales Agreement (the “Supplemental Product Sales Agreement”) (a copy of which is tabled at the meeting and marked “B” for identification purposes) dated 11 August 2016 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 Product Sales Transaction contemplated under the Framework Product Sales Agreement (further amended by the Supplemental Product Sales Agreement) for the three years ending 31 December 2019 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 2019 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 2019 and/or the said annual caps."

5. **“THAT**

- (a) the terms of the second 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 “C” for identification purposes) dated 11 August 2016 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 lease agreement relating to movable non-real properties entered into between the Company and Hon Hai on 13 June 2013 (as amended by a supplemental agreement dated 17 October 2013) 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 2019 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 2019 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 2019 and/or the said annual caps.”

6. **“THAT:**

- (a) the terms of the third supplemental agreement to the Consolidated Services and Sub-contracting Expense Agreement (the “Supplemental Consolidated Services and Sub-contracting Expense Agreement”) (a copy of which is tabled at the meeting and marked “D” for identification purposes) dated 11 August 2016 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 Consolidated Services and Sub-contracting Expense Transaction contemplated under the Consolidated Services and Sub-Contracting Expense Agreement (further amended by the Supplemental Consolidated Services and Sub-contracting Expense Agreement) for the three years ending 31 December 2019 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 2019 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

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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 2019 and/or the said annual caps.”

7. **“THAT:**

- (a) the terms of the fifth supplemental agreement to the framework equipment purchase agreement (the “Supplemental Equipment Purchase Agreement”) (a copy of which is tabled at the meeting and marked “E” for identification purposes) dated 11 August 2016 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 and 17 October 2013) and further amended by the Supplemental Equipment Purchase Agreement (the “Equipment Purchase Transaction”) for the three years ending 31 December 2019 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 2019 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 2019 and/or the said annual caps.”

By Order of the Board
TONG Wen-hsin
Chairman

Hong Kong, 1 September 2016

NOTICE OF EGM

Registered Office:

Floor 4, Willow House
Cricket Square, P O Box 2804
Grand Cayman KY1-1112
Cayman Islands

Head Office:

No. 18 Youyi Road
Langfang Economic and
Technological Development Zone
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

Notes:

- (a) The register of members of the Company will be closed from Monday, 19 September 2016 to Wednesday, 21 September 2016, both dates 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 extraordinary general meeting, 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 Thursday, 15 September 2016.
- (b) Any member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies to attend and vote in his stead. 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.
- (c) 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 branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not less than 48 hours before the time appointed for holding of the extraordinary general meeting or any adjourned meeting.
- (d) 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 (as defined in the Listing Rules) are required to abstain from voting on the above ordinary resolutions.
- (e) The ordinary resolutions set out above will be determined by way of poll.