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FIH Mobile Limited

富智康集團有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 2038)

**CONTINUING CONNECTED TRANSACTION
REVISION OF ANNUAL CAPS**

Financial Adviser

JINGHUI CAPITAL 
景匯資本

The Group and the Hon Hai Group have been carrying out the Product Sales Transaction from time to time under the Framework Product Sales Agreement. Hon Hai is the ultimate controlling shareholder of the Company and therefore is a connected person of the Company. The Product Sales Transaction constitutes a continuing connected transaction for the Company and the Company has set the Existing Annual Caps. The Company anticipates that the Existing Annual Caps may not be sufficient and proposes to revise them.

Based on the maximum amount of the Proposed Revised Annual Caps, the Product Sales Transaction constitutes a non-exempt continuing connected transaction for the Company under the Listing Rules. Accordingly, the Product Sales Transaction and the Proposed Revised Annual Caps are subject to the approval of the Independent Shareholders at the EGM.

The Company will convene the EGM to seek the Independent Shareholders' approval for the Product Sales Transaction and the Proposed Revised Annual Caps. The Company has established the Independent Board Committee and has appointed the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard. A circular is expected to be despatched to the Shareholders on or before 28 August 2020.

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

The Hon Hai Group is the leading global manufacturing service provider in the 3C industries. Hon Hai is the ultimate controlling shareholder of the Company holding approximately 61.94% of the total number of issued shares of the Company as at the date of this announcement and therefore is a connected person of the Company.

The Group and the Hon Hai Group have been carrying out the Product Sales Transaction from time to time under the Framework Product Sales Agreement. As Hon Hai is a connected person of the Company, the Product Sales Transaction constitutes a continuing connected transaction for the Company. With reference to the continuing connected transactions announcement of the Company dated 9 October 2019, the circular of the Company dated 14 November 2019 and the poll results announcement of the Company dated 6 December 2019, among other things, the Company set the Existing Annual Caps. The Company anticipates that the Existing Annual Caps may not be sufficient and proposes to revise them.

PRODUCT SALES TRANSACTION

Pursuant to the Framework Product Sales Agreement, for a term up to 31 December 2022, the Group has agreed to sell or procure its subsidiaries to sell to the Hon Hai Group products (including but not limited to materials and components, tooling, light-guides and finished goods generally) manufactured, owned or held (coupled with interest) by the Group that may be used in connection with or for the purposes of the businesses of the Hon Hai Group from time to time as well as such other products (including but not limited to any materials and components) as may be agreed between the Group and the Hon Hai Group from time to time upon and subject to the terms and conditions set out therein. In this respect, the scope of the aforesaid materials and components covers die-casting parts, flexible PCBs (printed circuit boards), PCBs, display/touch modules, heat sinks, work-in-progress generally and other materials and components that may be used in connection with or for the purposes of the businesses of the Hon Hai Group from time to time as well as such other materials and/or components as may be agreed between the Group and the Hon Hai Group from time to time.

Pricing Terms

Under the Product Sales Transaction, the applicable price of the products to be sold to the Hon Hai Group will be determined based on the following:

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

Under the Product Sales Transaction, the Group sells to the Hon Hai Group products including, but not limited to, handset products, handset parts and moulds used in handset manufacturing and other consumer electronic products. Due to changes in the specifications of the handset products and technological changes, the specifications of the products under the Product Sales Transaction 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 the products), the Group is not able to fix the prices of the products under the Product Sales Transaction but has instead agreed to the pricing terms set out above.

Payment for the Product Sales Transaction is usually received by the Group within 90 days after the date of the relevant invoice. These payment terms were usually adopted by the Group in its transactions with independent third parties or the Hon Hai Group. Such terms are on normal commercial terms and not more favourable than those offered by the Group to independent third parties.

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Pricing Details

Below are details regarding the application of the pricing terms of the Product Sales Transaction. Such pricing details are equally applicable to transactions with independent third parties.

Pricing terms

- (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

Pricing details

Where the Group is approved or otherwise designated by the customers of the Hon Hai Group to supply products to the Hon Hai Group, the products are sold at prices agreed between the Group and the Hon Hai Group's customers (without the Hon Hai Group's direct involvement).

Where the Group is not approved or otherwise designated by the customers of the Hon Hai Group, the price will be determined by reference to the average market price or the market price (if there is only one independent transaction available). These products include handset products and parts and other products sourced from independent vendors in the market as well as other products whose market prices are available.

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

Pricing terms

(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.

Pricing details

Cost plus is determined based on the Group’s cost of the products sold to the Hon Hai Group plus a margin as agreed between the Group and the Hon Hai Group. These products comprise handset products and parts, moulds used in handset manufacturing and other products which are all tailor-made by the Group according to the Hon Hai Group’s unique specifications. In determining the margin, the Group takes into account the margin for products of similar nature in the market by way of referring to margins for the Group’s sales of products of similar nature to independent customers. In general, the Group will select one independent transaction (most related to the subject product in nature) within six months of the proposed transaction with the Hon Hai Group to determine the margin. In case there is no recent sale of products of similar nature to independent customers by the Group, the Group will make reference to the margins of the historical transactions involving the sales of products of similar nature to independent customers by the Group. The Group will review and check to ensure that the margin as agreed between the Group and the Hon Hai Group is fair and reasonable adhering to the pricing terms and details and not less favourable than the margin for the Group’s sales of products of similar nature to independent customers.

In consideration of its inventory optimisation management, the Group may agree to prices lower than costs or prices/margins under the Group’s recent independent transactions. In such cases, the Group would only accept such lower prices if the products could not be sold at higher prices to other independent customers and the Group does not consider it to be in its interests to keep such inventory having regard to factors such as inventory obsolescence. The Group will attempt to solicit purchases from independent parties and will ensure that the prices of the products sold to the Hon Hai Group will not be lower than any prices offered by interested independent buyers. The operation departments of the Group carry out the inventory optimisation management and solicit purchases from buyers including the Hon Hai Group. The accounting departments of the Group will review any proposed sales of products by the operation departments under this pricing term.

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

REASONS AND BENEFITS FOR THE PRODUCT SALES TRANSACTION

The Group and the Hon Hai Group have been carrying out continuing connected transactions, as set out in the announcement of the Company dated 9 October 2019, to facilitate their respective businesses and operations from time to time.

The long-established relationship and connections between the Group and the Hon Hai Group and the global geographical convenience and proximity between the Group and the Hon Hai Group offer (among other things) efficient, convenient and timely communication and coordination between the parties to the transactions contemplated under the continuing connected transactions. The relevant continuing connected transactions, on one hand, provide a reliable, timely and efficient supply of materials, components and other products and provision of services in support of the Group's daily business operations, which are favourable to the Group's effective control and management over the product procurement, performance and quality, timeliness, production, facilities, capacities, expenditures, supply chain and after-sales services, whereas the relevant continuing connected transactions, on the other hand, generate more income for the Group and enhance the utilisation and management of the Group's assets and services. In addition, the continuous entering into of the continuing connected transactions between the Group and the Hon Hai Group from time to time can effectively lower the operation risks of both the Group and the Hon Hai Group mutually, and is favourable to the Group's daily business operations on an on-going basis.

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

HISTORICAL VALUES AND ANNUAL CAPS

The table below sets out (1) the historical actual amounts of the Product Sales Transaction for the two years ended 31 December 2018 and 2019 and for the six months ended 30 June 2020; (2) the Existing Annual Caps; and (3) the Proposed Revised Annual Caps:

	Actual transaction amounts			Existing Annual Caps			Proposed Revised Annual Caps		
	For the year ended 31 December 2018 (audited)	For the year ended 31 December 2019 (audited)	For the six months ended 30 June 2020 (unaudited)	2020	2021	2022	2020	2021	2022
<i>US\$'000</i>									
Product Sales Transaction	1,207,353	997,226	921,305	2,289,785	2,829,964	3,497,575	3,370,641	4,159,639	5,133,326

Reason for, and Basis of, the Proposed Revised Annual Caps

An existing customer of the Group (the "Customer") was acquired by the Hon Hai Group in the beginning of 2020 and became a connected person of the Company. The Group's sales of products to the Customer have become part of the Company's continuing connected transactions falling under the Product Sales Transaction since then. Taking into account the

Group's sales of products to the Customer, together with the other sales of products under the Product Sales Transaction, the Company anticipates that the Existing Annual Caps may not be sufficient and proposes to revise them.

The Proposed Revised Annual Caps are mainly based on:

- (a) the actual transaction amounts of the Product Sales Transaction for the six months ended 30 June 2020 and for the year ended 31 December 2019;
- (b) the historical transaction amounts and growth rate of the Group's sales of products to the Customer in 2019; and
- (c) a buffer of approximately 10% to cater for any unforeseen changes in market conditions (including but not limited to an unexpected increase in consumer demand and/or unexpected increase in the cost of supply, where applicable).

The Directors (excluding the independent non-executive Directors who will express their view after receiving advice from the Independent Financial Adviser) consider that the Proposed Revised Annual Caps are fair and reasonable, the entering into of the Product Sales Transaction is in the Group's ordinary and usual course of business and the terms of the Product Sales Transaction are fair and reasonable, on normal commercial terms and in the interests of the Company and its Shareholders as a whole. Mr. CHIH Yu Yang, an executive Director, is a director of a subsidiary and an associate of Hon Hai; Mr. WANG Chien Ho, an executive Director, is an employee of the Hon Hai Group. In view of their relationship with the Hon Hai Group, they abstained from voting on the Board's resolutions in relation to the Product Sales Transaction and the Proposed Revised Annual Caps. Save as disclosed, no other Directors had to abstain from voting on the Board's resolutions in relation to the Product Sales Transaction and the Proposed Revised Annual Caps.

INTERNAL CONTROL MEASURES

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

- Before entering into a transaction under the continuing connected transactions of the Company, the purchase departments and/or the operation departments (as the case may be) of the Group will review and check whether the pricing is fair and reasonable adhering to the pricing terms and details. In addition to reviewing the pricing before entering into a transaction under the continuing connected transactions of the Company where the pricing terms under the relevant agreements are applied for the first time or the pricing terms are different from those used previously, the accounting departments of the relevant member companies of the Group will review the aforesaid works carried out by the purchase departments and/or the operation departments (as the case may be) on a quarterly basis.

- The Company has formulated and maintained a list of connected persons of the Company for the purpose of monitoring the connected transactions (including the Product Sales Transaction) and a copy of such list, together with a copy of each of the framework agreements and subsequent supplemental agreements for the continuing connected transactions (including the Framework Product Sales Agreement), have been kept at the Group's headquarters accounting department, which is the department primarily responsible to review and monitor the continuing connected transactions ensuring that the annual caps of the relevant continuing connected transactions are not exceeded and the continuing connected transactions have been conducted in accordance with the pricing policies or mechanisms under the framework agreements relating to such continuing connected transactions. The headquarters accounting department of the Group collects the updated annual rolling forecast for each category of the continuing connected transactions (the "**CCT Rolling Forecast**") from the relevant operation departments of the Group every month and uses the CCT Rolling Forecast to calculate and monitor the estimated full-year transaction amount of each category of the continuing connected transactions at the Group's level. In relation to each category of the continuing connected transactions, the headquarters accounting department of the Group also compares the CCT Rolling Forecast with the pre-approved annual cap amounts or de minimis thresholds to check and see if there is any potential risk of the then estimated full-year transaction amount exceeding the corresponding annual cap amounts or de minimis thresholds. When there is potentially a new transaction under the relevant category of the continuing connected transactions to be transacted between the Group and the Hon Hai Group, the chief financial officer of the Group (the "**Group CFO**") will inform the headquarters accounting department of the Group to ensure that such potential new transaction has been included in the relevant CCT Rolling Forecast and, if necessary, update such CCT Rolling Forecast based on the information regarding such potential new transaction then available for review by the Group CFO. When the relevant CCT Rolling Forecast indicates that the pre-approved annual cap amounts or de minimis thresholds relating to the relevant category of the continuing connected transactions may be exceeded, the headquarters accounting department of the Group will check the reasons and/or assumptions underlying the relevant CCT Rolling Forecast again, in consultation with the operation departments of the Group, and then report the same to the Group CFO. The Group CFO will then internally review and assess if the then existing pre-approved annual cap amounts or de minimis thresholds will likely be exceeded, and if so, will initiate re-compliance or compliance with all the applicable requirements under the Listing Rules in respect of any revision of the then existing pre-approved annual cap amounts or setting of annual cap amounts for the de minimis continuing connected transaction that may potentially exceed the de minimis thresholds.
- The headquarters accounting department of the Group will consult with the Group's internal audit function in respect of continuing connected transaction compliance issues and report semi-annually to the Group CFO, normally before the Company's publication of the interim results and final results of the Group respectively in every financial year, and the Group CFO (in his own capacity and on behalf of the Group's management designated for the purposes of assisting the Board with the Group's enterprise risk management and internal controls) will semi-annually report to the audit committee of the Company (currently comprising all the independent non-executive Directors) and simultaneously, provide a confirmation to the audit committee that the continuing connected transactions of the Company which are subject to the annual review and

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

- The Company's external auditor will review the continuing connected transactions (which are subject to the annual review and disclosure requirements under the Listing Rules) annually to check and confirm (among others) whether the pricing terms have been adhered to and whether the relevant caps have been exceeded. According to Rule 14A.56 of the Listing Rules, the Company's external auditor will report its findings and conclusions (in the form of an independent assurance report) to the Board, whereas a copy thereof will be provided by the Company to the Stock Exchange.
- The independent non-executive Directors will review the continuing connected transactions of the Company (which are subject to the annual review and disclosure requirements under the Listing Rules) semi-annually to check and confirm whether such continuing connected transactions are conducted in the ordinary and usual course of business of the Group, on normal commercial terms or better, in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole, and whether the internal control procedures put in place by the Company are properly implemented and operated and are adequate and effective to ensure that such continuing connected transactions were so conducted and also conducted in accordance with the pricing policies set out in such relevant agreements.
- Please also refer to page 180 of the Company's 2019 annual report (incorporating its 2019 corporate governance report) as issued and published on 16 April 2020.

LISTING RULES IMPLICATIONS

As mentioned above, Hon Hai is the ultimate controlling shareholder of the Company and therefore is a connected person of the Company. Accordingly, the transactions contemplated under the Product Sales Transaction entered into between the Group and the Hon Hai Group from time to time constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As at least one of the applicable percentage ratios (other than the profits ratio and the equity ratio which are not applicable in the present context) in respect of the maximum amount of the Proposed Revised Annual Caps is more than 5% and each of the Proposed Revised Annual Caps, on an annual basis, is more than HK\$10 million, the Product Sales Transaction constitutes a non-exempt continuing connected transaction for the Company under the Listing Rules. Accordingly, the Product Sales Transaction and the Proposed Revised Annual Caps are subject to the reporting, announcement, annual review and the approval of the Independent Shareholders requirements under Chapter 14A of the Listing Rules.

EGM

The Company will convene the EGM to seek the Independent Shareholders' approval for the Product Sales Transaction and the Proposed Revised Annual Caps. As Hon Hai is a party to the Framework Product Sales Agreement, Hon Hai and its associates are required to and will abstain from voting on the resolution to be proposed at the EGM for approving the above matters. At the EGM, votes will be taken by way of poll. As at the date of this announcement, Hon Hai and its associates in aggregate are interested in 5,081,034,525 Shares, representing approximately 61.94% of the total number of issued shares of the Company.

GENERAL

The Independent Board Committee, comprising all the independent non-executive Directors, has been established to consider the Product Sales Transaction and the Proposed Revised Annual Caps and to advise the Independent Shareholders as to whether the Product Sales Transaction and the Proposed Revised Annual Caps are on normal commercial terms or better, fair and reasonable and in the interests of the Company and the Shareholders as a whole. The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

A circular setting out, among other things, (i) details of the Product Sales Transaction and the Proposed Revised Annual Caps; (ii) the letter of advice from the Independent Board Committee to the Independent Shareholders; (iii) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; and (iv) a notice of the EGM, is expected to be despatched to the Shareholders on or before 28 August 2020.

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

DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions shall have the following meanings:

“associate(s)”	having the meaning as defined in the Listing Rules
“Board”	the board of Directors
“Company”	FIH Mobile Limited, a limited liability company incorporated in the Cayman Islands, the shares of which are listed on the Stock Exchange
“connected person(s)”	having the meaning as defined in the Listing Rules
“continuing connected transaction(s)”	having the meaning as defined in the Listing Rules
“controlling shareholder”	having the meaning as defined in the Listing Rules

“Directors”	the directors of the Company
“EGM”	the extraordinary general meeting of the Company to be convened to consider and, if thought fit, approve the resolution in respect of the Product Sales Transaction and the Proposed Revised Annual Caps
“Existing Annual Caps”	the existing annual caps for the Product Sales Transaction for each of the three years ending 31 December 2022 as set out under the section headed “Historical values and annual caps” in this announcement
“Financial Adviser”	Jinghui Capital Limited, a licensed corporation under the SFO to carry out Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities, which has been appointed by the Company to be the financial adviser to advise the Company in respect of the Product Sales Transaction and the Proposed Revised Annual Caps
“Framework Product Sales Agreement”	the framework product sales agreement entered into among the Company, Hon Hai and Innolux Corporation (an associate of Hon Hai formerly known as Innolux Display Corporation and then Chimei Innolux Corporation, whose rights, obligations and liabilities thereunder were subsequently assumed and taken up by Hon Hai) on 18 January 2005 (as amended by the respective supplemental agreements among the above parties dated 28 February 2006, 24 October 2007 and 19 November 2010, and the respective supplemental agreements between the Company and Hon Hai dated 17 October 2013, 11 August 2016 and 9 October 2019)
“Group”	the Company and/or its subsidiaries (as the case may be)
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hon Hai”	鴻海精密工業股份有限公司 (Hon Hai Precision Industry Co. Ltd., for identification purposes only), the ultimate controlling shareholder of the Company
“Hon Hai Group”	Hon Hai, its subsidiaries and/or associates (as the case may be), other than the Group
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

“Independent Board Committee”	the independent board committee established by the Board comprising all the independent non-executive Directors, namely Mr. LAU Siu Ki, Dr. Daniel Joseph MEHAN and Mr. TAO Yun Chih, to consider the Product Sales Transaction and the Proposed Revised Annual Caps
“Independent Financial Adviser”	Red Sun Capital Limited, a licensed corporation under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities, which has been appointed by the Company as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Product Sales Transaction and the Proposed Revised Annual Caps
“Independent Shareholders”	Shareholders other than Hon Hai and its associates
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“percentage ratios”	the percentage ratios calculated based on the requirements under Rule 14.07 of the Listing Rules
“PRC”	the People’s Republic of China
“Product Sales Transaction”	the transactions contemplated under the Framework Product Sales Agreement as set out in the section headed “Product Sales Transaction” in this announcement
“Proposed Revised Annual Caps”	the revised annual caps proposed for the Product Sales Transaction for each of the three years ending 31 December 2022 as set out under the section headed “Historical values and annual caps” in this announcement
“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
“subsidiary(ies)”	having the meaning ascribed to it under the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)

“US\$” United States dollars, the lawful currency of the United States of America

“3C” computer, communication and consumer electronics

By Order of the Board
CHIH Yu Yang
Acting Chairman

Hong Kong, 7 August 2020

As at the date of this announcement, the Board comprises three executive directors, namely Mr. CHIH Yu Yang, Mr. WANG Chien Ho and Dr. KUO Wen-Yi; and three independent non-executive directors, namely Mr. LAU Siu Ki, Dr. Daniel Joseph MEHAN and Mr. TAO Yun Chih.