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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)

DISCLOSEABLE TRANSACTION

COMPENSATION AGREEMENTS

IN RELATION TO RESUMPTION OF SUBSIDIARY'S LAND

Financial Adviser



On 2 November 2022 (after trading hours), the Local Authority and Honxun (an indirect wholly-owned subsidiary of the Company) entered into the Compensation Agreements, under which (among other things) the Local Authority shall resume the ownership of the Properties from Honxun and a Total Compensation of RMB656,397,411 (equivalent to approximately US\$90.79 million) shall be payable by the Local Authority to Honxun, upon and subject to the terms and conditions set out therein.

As one of the applicable percentage ratios calculated under Chapter 14 of the Listing Rules is more than 5% but all of the applicable percentage ratios are below 25%, the Transaction constitutes a discloseable transaction of the Company and is subject to the announcement requirement under Chapter 14 of the Listing Rules.

INTRODUCTION

This announcement is made by the Company in compliance with the disclosure requirements under Rule 13.09(2) and Chapter 14 of the Listing Rules as well as the Inside Information Provisions (as defined under the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

On 2 November 2022 (after trading hours), the Local Authority and Honxun (an indirect wholly-owned subsidiary of the Company) entered into the Compensation Agreements, under which (among other things) the Local Authority shall resume the ownership of the Properties from Honxun and a Total Compensation of RMB656,397,411 (equivalent to approximately US\$90.79 million) shall be payable by the Local Authority to Honxun, upon and subject to the terms and conditions set out therein.

COMPENSATION AGREEMENTS

Compensation Agreement (A)

Date

2 November 2022

Parties

- (1) the Local Authority; and
- (2) Honxun, an indirect wholly-owned subsidiary of the Company.

To the best knowledge, information and belief of the Directors having made all reasonable enquiries, the Local Authority is a government authority in Hangzhou, Zhejiang Province, the PRC, and both the Local Authority and (if applicable) its ultimate beneficial owner are Independent Third Parties.

Property to be resumed

Upon and subject to the terms and conditions of the Compensation Agreement (A), the Local Authority shall resume the ownership of the Property (A) from Honxun. The Property (A) is situated at 中國浙江省杭州經濟技術開發區11號大街58號、58-2號及58-3號 (Nos. 58, 58-2 and 58-3, 11th Avenue, Hangzhou Economic and Technological Development Zone, Hangzhou, Zhejiang Province, the PRC*).

The Property (A) is for industrial use. It comprises land and the buildings and structures thereon, with a total site area of approximately 152,958 square meters and a gross floor area of approximately 114,013 square meters. At present, the Group does not carry out any manufacturing operations on the Property (A). Certain premises of the Property (A) are leased by Honxun to its lessees, generating rental income for the Group. Among the lessees are members of the Hon Hai Technology Group. Hon Hai is the ultimate controlling shareholder of the Company. The leases of premises owned by the Group to the Hon Hai Technology Group are carried out under the Lease Income Transaction, a continuing connected transaction of the Company under the Listing Rules as defined and more particularly described in the Company's 2021 annual report (under the section headed "Continuing Connected Transactions – Lease Income Transaction" at pages 101 and 102) as issued and published on 13 April 2022.

Set out below are the total rental income and the profit before and after tax attributable to the Property (A) for each of the two years ended 31 December 2020 and 2021.

(RMB' million)	For the year ended 31 December	
	2020	2021
	(unaudited)	(unaudited)
Rental income	18.9	19.1
Profit before tax	4.3	4.6
Profit after tax	3.2	3.5

As at 30 June 2022, the Property (A) (comprising land together with the buildings and structures thereon) reported a net book value of approximately RMB71.27 million.

Compensation and payment terms

According to the Compensation Agreement (A), the Compensation (A) amounts to RMB607,669,300 and will be payable in cash by the Local Authority to Honxun (or a party designated by Honxun) as follows:

- (i) 20% of the Compensation (A), equivalent to RMB121,533,860, will be payable within 20 business days after the date of the Compensation Agreement (A);
- (ii) 30% of the Compensation (A), equivalent to RMB182,300,790, will be payable within 20 business days after the cancellation of Honxun's land use rights, property ownership and related certificates in relation to the Property (A); and
- (iii) the remaining 50%, equivalent to RMB303,834,650, will be payable within 20 business days after the Property (A) having been vacated to the satisfaction of the Local Authority.

The Compensation (A) was determined based on the Guidelines as issued by a local authority in the PRC to provide compensation guidelines in relation to the local Hangzhou government's resumption of non-residential properties at 杭州錢塘區 (Hangzhou Qiantang Area*). In accordance with the Guidelines, the Compensation (A) comprises: (i) compensation for the value of the Property (A) based on a valuation of the Property (A) made by a valuer engaged by a local authority in the PRC; (ii) compensation for the removal of plants and equipment set up in and affixed or attached to the Property (A) based on a valuation of such plants and equipment made by a valuer engaged by a local authority in the PRC; (iii) compensation for the losses consequential to removal and cessation of production and operations then carried out in the Property (A) (including compensation for staff relocation); and (iv) other incentives and subsidies calculated in accordance with the Guidelines.

Honxun's responsibilities in relation to the Property (A)

In pursuance of the Compensation Agreement (A), Honxun is required to settle any obligations under any lease and/or pledge/mortgage in relation to the Property (A). In particular, Honxun is required to vacate the Property (A) before 1 November 2025. At present, none of the Property (A) and any part thereof is pledged/mortgaged for any security arrangements.

Certain premises of the Property (A) are currently leased to certain lessees of Honxun. For the provision of general services to such lessees in support of their operations in such premises, certain service providers have been engaged by Honxun or Honxun's lessees to set up and operate the corresponding facilities in the Property (A). Upon and subject to the terms and conditions of the agreements which may be entered into between Honxun on the one hand and each of the lessees and the service providers on the other hand, Honxun may provide compensation, calculated with reference to the Guidelines, to the lessees and the service providers to move out of the relevant premises of the Property (A) and to deliver vacant possession of such premises to Honxun. Any compensation to be payable by Honxun to the lessees and the service providers is expected to be settled out of the amounts payable by the Local Authority to Honxun under the Compensation Agreement (A). In particular, any compensation which may be provided by Honxun to any of the members of the Hon Hai Technology Group who is a lessee or a service provider (as the case may be) of the Property (A) will constitute a connected transaction for the Company subject to applicable requirements under the Listing Rules. The Company will comply with the relevant Listing Rules' requirements as and when appropriate.

Pursuant to the Compensation Agreement (A), if either party fails to perform any of its obligations under the Compensation Agreement (A), the non-defaulting party may give a written notice to the defaulting party to stipulate a period for rectification. If the breach is not rectified within the stipulated period, the defaulting party shall compensate for all economic losses suffered by the non-defaulting party. If the Local Authority fails to pay the Compensation (A) according to the payment schedule pursuant to the Compensation Agreement (A), in addition to the aforementioned liability for damages, the Local Authority shall pay to Honxun daily damages amounting to 0.01% of any outstanding sum from the expiry date of the stipulated period. If Honxun fails to vacate the Property (A) before the agreed delivery date of 1 November 2025, in addition to the aforementioned liability for damages, Honxun shall pay to the Local Authority daily damages of RMB30,383.47 from the expiry date of the stipulated period.

Compensation Agreement (B)

Date

2 November 2022

Parties

- (1) the Local Authority; and
- (2) Honxun, an indirect wholly-owned subsidiary of the Company.

Property to be resumed

Upon and subject to the terms and conditions of the Compensation Agreement (B), the Local Authority shall resume the ownership of the Property (B) from Honxun. The Property (B) is situated at 中國浙江省杭州經濟技術開發區M14-11-10 (M14-11-10, Hangzhou Economic and Technological Development Zone, Hangzhou, Zhejiang Province, the PRC*).

The Property (B) is for industrial use and has a total site area of approximately 59,051 square meters. The Property (B) does not contain any buildings and is not leased to any lessee nor occupied by any service provider. It did not generate any revenue or profits for the Group for each of the two years ended 31 December 2021.

As at 30 June 2022, the Property (B) reported a net book value of approximately RMB6.81 million.

Compensation and payment terms

According to the Compensation Agreement (B), the Compensation (B) amounts to RMB48,728,111 and will be payable in cash by the Local Authority to Honxun as follows:

- (i) 40% of the Compensation (B), equivalent to RMB19,491,244.40, will be payable within 20 business days after the date of the Compensation Agreement (B);
- (ii) 30% of the Compensation (B), equivalent to RMB14,618,433.30, will be payable within 20 business days after the cancellation of Honxun's land use rights and related certificates in relation to the Property (B); and
- (iii) the remaining 30%, equivalent to RMB14,618,433.30, will be payable within 20 business days after the Property (B) having been vacated to the satisfaction of the Local Authority.

In accordance with the Guidelines, the Compensation (B) represents compensation for the value of the Property (B) based on a valuation of the Property (B) made by a valuer engaged by a local authority in the PRC.

Honxun's responsibilities in relation to the Property (B)

In pursuance of the Compensation Agreement (B), Honxun is required to settle any obligations under any lease and/or pledge/mortgage in relation to the Property (B). In particular, Honxun is required to vacate the Property (B) before 1 April 2023. At present, none of the Property (B) and any part thereof is pledged/mortgaged for any security arrangements, and the Property (B) does not contain any buildings and is not leased to any lessee nor occupied by any service provider.

Pursuant to the Compensation Agreement (B), if either party fails to perform any of its obligations under the Compensation Agreement (B), the non-defaulting party may give a written notice to the defaulting party to stipulate a period for rectification. If the breach is not rectified within the stipulated period, the defaulting party shall compensate for all economic losses suffered by the non-defaulting party. If the Local Authority fails to pay the Compensation (B) according to the payment schedule pursuant to the Compensation Agreement (B), in addition to the aforementioned liability for damages, the Local Authority shall pay to Honxun daily damages amounting to 0.01% of any outstanding sum from the expiry date of the stipulated period. If Honxun fails to vacate the Property (B) before the agreed delivery date of 1 April 2023, in addition to the aforementioned liability for damages, Honxun shall pay to the Local Authority daily damages of RMB3,410.97 from the expiry date of the stipulated period.

REASONS FOR AND BENEFITS OF THE TRANSACTION

For the purposes of development/redevelopment of 中國浙江省杭州東部灣新城 (Dongbuwan New District, Hangzhou, Zhejiang Province, the PRC*), the local government of Hangzhou, Zhejiang Province, the PRC has been resuming the ownership of the land contemplated under the development/redevelopment, including the Properties.

Honxun acquired the land use rights of the Property (A) in 2004 and 2005 and acquired the land use rights of the Property (B) in 2007. At present, the Group does not carry out any manufacturing operations on the Properties. Certain premises of the Property (A) are currently occupied by Honxun's lessees and service providers, while the Property (B) does not contain any buildings and is not leased to any lessee nor occupied by any service provider. As at 30 June 2022, the Properties reported a total net book value of RMB78.08 million. The Transaction with a Total Compensation of RMB656,397,411 (equivalent to approximately US\$90.79 million) presents an opportunity for the Group to realise the appreciation in value of the Properties while the Transaction will not adversely affect the manufacturing operations nor plans of the Group. In assessing the fairness and reasonableness of the Total Compensation, Honxun has engaged independent valuers Zhejiang Zhetianyun Asstes Appraisal Co., Ltd. (浙江浙天允資產評估有限公司) and BMI Appraisals Limited to appraise the aggregate value of the Properties. Based on the valuation made by the aforesaid independent valuers, the Properties are valued at a total of RMB488,238,513 and RMB455,800,000 respectively as at 31 July 2022. Having regard to (i) the Total Compensation being above the appraised aggregate value of the Properties based on the valuation of the Properties made by the independent valuers engaged by Honxun; and (ii) the Guidelines, the Company considers that the Total Compensation is fair and reasonable.

In pursuance of the Guidelines, subject to the terms and conditions of the agreements which may be entered into between Honxun on the one hand and Honxun's lessees and service providers on the other hand, it is currently estimated that a total compensation payable by Honxun to its lessees and service providers to compensate them to move out of the relevant premises of the Property (A) may amount to RMB96 million (equivalent to approximately US\$13.28 million).

Based on the total net book value of the Properties, the aforesaid estimated total compensation which may be payable by Honxun to its lessees and service providers, and the other estimated costs to be incurred by the Group in relation to the Transaction, it is currently estimated that the Group is likely to recognise a gain arising from the Transaction of approximately RMB480 million (before tax) and approximately RMB360 million (after tax) (equivalent to approximately US\$66.39 million and approximately US\$49.79 million respectively). Such gain is expected to be recorded on the Group's consolidated statement of profit or loss over the years according to different stages of the Transaction, in particular the cancellation of land use rights and related certificates in relation to the Properties and the Properties having been vacated.

The final gain arising from the Transaction will depend on the actual compensation costs which may be provided to the lessees and service providers of the Property (A) and other actual costs to be incurred in relation to the Transaction, subject to audit by the Company's auditors.

Having regard to the reasons for and benefits of the Transaction and the Total Compensation being fair and reasonable, the Directors consider that the terms of the Transaction (including the Total Compensation) are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

USE OF PROCEEDS

Subject to actual compensation and other costs to be payable by Honxun in relation to the Transaction as aforesaid, it is currently estimated that the net proceeds (after tax) from the Transaction receivable by Honxun are likely to amount to approximately RMB440 million (equivalent to approximately US\$60.86 million). It is currently intended that the net proceeds will be used for working capital and general corporate purposes of the Group.

INFORMATION ABOUT THE LOCAL AUTHORITY, HONXUN AND THE GROUP

The Local Authority is an authority established by the local government of Hangzhou, Zhejiang Province, the PRC in relation to implementation, execution and completion of the development/redevelopment of 中國浙江省杭州東部灣新城 (Dongbuwan New District, Hangzhou, Zhejiang Province, the PRC*).

Honxun is an indirect wholly-owned subsidiary of the Company, and its principal business activity is handset manufacturing.

The Group is a vertically integrated manufacturing services provider with business models offering a comprehensive range of end-to-end manufacturing and engineering services to its customers tailored to meet specific market and customer product lifecycle requirements in respect of handsets and other wireless communication devices and consumer electronic products and this full range and wide array of capabilities provide the Group's customers with expertise across the entire value chain. The products and services include 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, supply chain services and solutions, and repair and refurbishment 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 eReaders, tablets, and voice interaction products like smart speakers.

IMPLICATIONS UNDER THE LISTING RULES

As one of the applicable percentage ratios calculated under Chapter 14 of the Listing Rules is more than 5% but all the applicable percentage ratios are below 25%, the Transaction constitutes a discloseable transaction of the Company and is subject to the announcement requirement under Chapter 14 of the Listing Rules.

DEFINITIONS

“Company”	FIH Mobile Limited, a limited liability company incorporated in the Cayman Islands, the shares of which are listed on the Stock Exchange
“Compensation Agreement (A)”	the non-residential housing removal and compensation agreement dated 2 November 2022 entered into between the Local Authority and Honxun in relation to the resumption of ownership of the Property (A) by the Local Authority
“Compensation Agreement (B)”	the non-residential housing removal and compensation agreement dated 2 November 2022 entered into between the Local Authority and Honxun in relation to the resumption of ownership of the Property (B) by the Local Authority
“Compensation Agreements”	collectively, the Compensation Agreement (A) and the Compensation Agreement (B)
“Compensation (A)”	the total compensation payable by the Local Authority to Honxun under the Compensation Agreement (A)
“Compensation (B)”	the total compensation payable by the Local Authority to Honxun under the Compensation Agreement (B)
“Directors”	the directors of the Company
“Group”	the Company and its subsidiaries
“Guidelines”	杭州錢塘新區非住宅房屋征遷補償貨幣化安置之實施意見 (Implementation Guidelines of Monetary Compensation for Resumption of Non-residential Properties in Hangzhou Qiantang New Area*) issued by 杭州錢塘新區管理委員會 (Hangzhou Qiantang New Area Management Committee*)

“Hon Hai”	鴻海精密工業股份有限公司 (Hon Hai Precision Industry Co. Ltd.*), a company incorporated in Taiwan whose shares are listed on the Taiwan Stock Exchange Corporation and the ultimate controlling shareholder of the Company
“Hon Hai Technology 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
“Honxun”	Honxun Electrical Industry (Hangzhou) Co., Ltd. (宏訊電子工業(杭州)有限公司), an indirect wholly-owned subsidiary of the Company established in the PRC
“Independent Third parties”	persons who are not connected persons (as defined in the Listing Rules) of the Company and are third parties independent of and not connected with the Company or its connected persons (as defined in the Listing Rules)
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange as amended from time to time
“Local Authority”	杭州東部灣新城開發建設指揮部 (The Headquarters for the Development of the Dongbuwan New District in Hangzhou*)
“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
“Properties”	the Property (A) and the Property (B)
“Property (A)”	the property located at 中國浙江省杭州經濟技術開發區 11 號大街 58 號、58-2 號及 58-3 號 (Nos. 58, 58-2 and 58-3, 11th Avenue, Hangzhou Economic and Technological Development Zone, Hangzhou, Zhejiang Province, the PRC*)
“Property (B)”	the property located at 中國浙江省杭州經濟技術開發區 M14-11-10 (M14-11-10, Hangzhou Economic and Technological Development Zone, Hangzhou, Zhejiang Province, the PRC*)
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholders”	shareholders 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)

“Total Compensation”	collectively, the Compensation (A) and the Compensation (B)
“Transaction”	the resumption of the Properties by the Local Authority under the Compensation Agreements
“US\$”	United States dollars, the lawful currency of the United States of America
“%”	per cent

For the purposes of this announcement, RMB is converted into US\$ at an exchange rate of US\$1.00:RMB7.23 for illustrative purpose only, unless otherwise stated. No representation is made that any amount in US\$ has been, could have been or may be converted at such rate or any other rate or at all.

** For identification purposes only*

By Order of the Board
CHIH Yu Yang
Acting Chairman

Hong Kong, 2 November 2022

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