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FIT Hon Teng Limited

鴻騰六零八八精密科技股份有限公司

(Incorporated in the Cayman Islands with limited liability under the name Foxconn Interconnect Technology Limited and carrying on business in Hong Kong as FIT Hon Teng Limited)

(Stock Code: 6088)

CONTINUING CONNECTED TRANSACTIONS

PROPOSED REVISION OF ANNUAL CAPS

REVISION OF ANNUAL CAPS

The Group from time to time has been carrying out the Product Sales Transaction and Product Purchase Transaction with Hon Hai Group pursuant to the Framework Sales Agreement and Framework Purchase Agreement for a term up to December 31, 2019 respectively. The Product Sales Transaction and the Product Purchase Transaction constitute non-exempt continuing connected transactions for the Company under the Listing Rules, and the Company has set the existing annual caps for the Product Sales Transaction and the Product Purchase Transaction for each of the three years ending December 31, 2019 respectively. It is anticipated that the existing annual caps for the Product Sales Transaction and the Product Purchase Transaction for each of the three years ending December 31, 2019 may not be sufficient due to the stronger-than-expected demand for lightning cable from our brand company customers. The Company has therefore proposed the Proposed Transactions Annual Caps in place of such existing annual caps.

LISTING RULE IMPLICATIONS

As of the date of this announcement, the Company is indirectly owned as to 76.92% by Hon Hai, the controlling shareholding of the Company. Accordingly, Hon Hai is a connected person of the Company pursuant to Chapter 14A of the Listing Rules.

Based on the maximum amount of the Proposed Transactions Annual Caps, one or more of the relevant percentage ratios are more than 5% and the Product Sales Transaction and the Product Purchase Transaction constitute non-exempt continuing connected transactions for the Company under the Listing Rules and therefore the Product Sales Transaction, the Product Purchase Transaction and the Proposed Transactions Annual Caps are subject to the approval of the Independent Shareholders. The Product Sales Transaction and the Product Purchase Transaction are also subject to the annual review requirements under Rules 14A.55 to 14A.59 of the Listing Rules.

The Company expects to convene an extraordinary general meeting to seek the Independent Shareholders' approval for the Product Sales Transaction, the Product Purchase Transaction and the Proposed Transactions Annual Caps. The Company has established the Independent Board Committee to review, consider, recommend and advise the Independent Shareholders in respect thereof. An independent financial adviser will be appointed to advise the Independent Board Committee and the Independent Shareholders in this regard and further announcement will be made by the Company upon such appointment. A circular will be despatched to the Shareholders on or before September 25, 2017.

As additional time is required to prepare the relevant information to be included in the circular, the expected date of despatch of the circular is more than 15 business days after the publication of this announcement.

The Group from time to time has been carrying out the Product Sales Transaction and Product Purchase Transaction with Hon Hai Group pursuant to the Framework Sales Agreement and Framework Purchase Agreement for a term up to December 31, 2019 respectively. The Product Sales Transaction and the Product Purchase Transaction constitute non-exempt continuing connected transactions for the Company under the Listing Rules, and the Company has set the existing annual caps for the Product Sales Transaction and the Product Purchase Transaction for each of the three years ending December 31, 2019 respectively. It is anticipated that the existing annual caps for the Product Sales Transaction and the Product Purchase Transaction for each of the three years ending December 31, 2019 may not be sufficient due to the stronger-than-expected demand for lightning cable from our brand company customers. The Company has therefore proposed the Proposed Transactions Annual Caps in place of such existing annual caps.

BACKGROUND

Reference is made to the section headed "Connected Transaction — Non-exempt Continuing Connected Transactions" of the prospectus of the Company dated June 29, 2017 in relation to, among other things, the Product Sales Transaction, the Product Purchase Transaction and the existing annual caps for the Product Sales Transaction and the Product Purchase Transaction, respectively, for the three years ending December 31, 2019.

Product Sales Transaction

Pursuant to the Framework Sales Agreement, the Group has agreed to sell to Hon Hai Group various interconnect solutions and other related products for a term up to December 31, 2019 upon and subject to the terms and conditions set out therein at a price determined as follows:

- (1) for the sales to Hon Hai Group that are designated by our brand company customers, at the price negotiated and determined between our brand company customers and us; or
- (2) for other sales to Hon Hai Group where selling prices were not designated by our customers ("**Connected Sales**"), at a price that is determined by referencing the blended profit margin,

which is the difference between revenue generated from such sales and historical cost allocated thereto for the preceding month, divided by the corresponding revenue, to that of sales to independent third parties (“**Third Party Sales**”), on a rolling basis, such that the differences in the blended profit margins between Connected Sales and Third Party Sales in each fiscal year shall not be more than 6.5% having considered the long-term business relationship, large sales volume to Hon Hai Group, and the strategic partnership with Hon Hai Group.

Product Purchase Transaction

Pursuant to the Framework Purchase Agreement, the Group has agreed to purchase from Hon Hai Group various raw materials, ancillary materials and semi-finished components and assembled products for a term up to December 31, 2019 upon and subject to the terms and conditions set out therein at a price determined as follows:

- (1) for the procurement of gold salts, at the price equivalent to the sum of the commodity spot prices and the processing fees; or
- (2) for the procurement of ancillary raw materials from Hon Hai Group that is designated by our customers, at the price agreed between Hon Hai Group and our customers; and for other procurement of ancillary raw materials from Hon Hai Group, at the price determined with reference to comparable third-party prices to the extent independent-third-party suppliers are available; or
- (3) for the procurement of semi-finished goods and assembled products, at the price determined based on (a) Hon Hai Group’s purchase prices of raw materials supplied by us, (b) their purchase prices of other raw materials, (c) their labor costs and overheads and (d) handling fees up to 5% of relevant labor cost and overheads.

HISTORICAL VALUES AND ANNUAL CAPS

With reference to the section headed “Connected Transaction” of the prospectus of the Company dated June 29, 2017, the Company has set the existing annual caps for the Product Sales Transaction and the Product Purchase Transaction for each of the three years ending 31 December 2019.

In light of the stronger-than-expected demand for lightning cable from our brand company customers, we anticipate additional needs to sell our lightning cable and other related products to and purchase certain assembled products from Hon Hai Group under the Product Sales Transaction and the Product Purchase Transaction respectively. Accordingly, the Company envisages that the existing annual caps for the Product Sales Transaction and the Product Purchase Transaction, respectively, may not be sufficient and has therefore proposed the Proposed Sales Annual Caps and the Proposed Purchase Annual Caps in place of such existing annual caps.

The table below sets out (a) the historical actual amounts of the Product Sales Transaction for the three years ended December 31, 2016; (b) the existing annual caps for the Product Sales Transaction for the three years ending December 31, 2019; and (c) the Proposed Transactions Annual Caps for the three years ending December 31, 2019.

<i>(in US\$ millions)</i>	Actual transaction amounts			Existing annual caps			Proposed Transactions Annual Caps		
	Year ended December 31,			Year ending December 31,			Year ending December 31,		
	2014	2015	2016	2017	2018	2019	2017	2018	2019
Product Sales Transaction	1,090.5	861.7	661.1	952.6	893.3	1,047.1	1,008.8	1,116.6	1,309.1
Product Purchase Transaction	232.4	304.9	398.5	433.5	433.6	443.1	508.5	585.4	620.3

The Proposed Transactions Annual Caps are determined with reference to projections of the Company which in turn are prepared by the Company mainly with reference to the following major factors:

- the latest available actual amounts of the transactions under the Product Sales Transaction and the Product Purchase Transaction during the period from January 1, 2017 to June 30, 2017 (both dates inclusive);
- the historical growth and budgets of the Product Sales Transaction and the Product Purchase Transaction;
- the increasing demand for lightning cable from our brand company customers; and
- the cost saving advantage resulting from the Product Purchase Transaction due to the economies of scale enjoyed by Hon Hai Group in relation to the production of certain assembled products.

REASONS FOR AND BENEFITS IN RELATION TO THE TRANSACTIONS

The Company considers it in its best interests to generate more income and save cost by carrying out the Product Sales Transaction and the Product Purchase Transaction in response to the stronger-than-expected demand from certain brand company customers, provided that the Group sells to and purchases from Hon Hai Group at prices pursuant to the pricing policies set forth in the Framework Sales Agreement and the Framework Purchase Agreement.

In view of the above, the Directors (excluding the independent non-executive Directors who will express their view in a circular after receiving advice from an independent financial adviser) consider that the Proposed Transactions Annual Caps are fair and reasonable, and the terms of the Product Sales Transaction and the Product Purchase Transaction are fair and reasonable, on normal commercial terms and in the interests of the Company and its Shareholders as a whole.

INTERNAL CONTROL

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

- Before entering into a transaction under the continuing connected transactions of the Company, the purchase departments and/or the operation departments (as the case may be) of the Group will review and check whether the pricing is fair and reasonable adhering to the pricing terms and details and, in respect of the procurement of ancillary raw materials from Hon Hai Group that is designated by our customers, will compare the pricing against a quote obtained from independent third party. 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 business management department 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 business management 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 business management department of the Company will consult with the Group's internal audit function, external lawyer and compliance adviser in respect of continuing connected transaction compliance issues and annually report to the head of the business management department of the Company, who (in his own capacity and on behalf of the Group's management designated for the purposes of the Group's enterprise risk management and internal controls) will report to the audit committee of the Company and also provide a confirmation to the audit committee that the continuing connected transactions of the Company which are subject to the annual review and disclosure requirements under the Listing Rules have been entered into (a) in the ordinary and usual course of business of the Group; (b) on normal commercial terms or better; and (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole; and that the Group's internal control procedures applicable to continuing connected transactions are adequate and effective to ensure that such transactions were so conducted. The audit committee will consider this accordingly.
- The Company's external auditors will review the continuing connected transactions (which are subject to the annual review and disclosure requirements under the Listing Rules) annually to check and confirm (among others) whether the pricing terms have been adhered to and whether the relevant caps have been exceeded.

- The independent non-executive Directors will review the continuing connected transactions of the Company (which are subject to the annual review and disclosure requirements under the Listing Rules) annually to check and confirm whether such continuing connected transactions are conducted in the ordinary and usual course of business of the Group, on normal commercial terms or better, in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole, and whether the internal control procedures put in place by the Company are adequate and effective to ensure that such continuing connected transactions were conducted in accordance with the pricing policies set out in such relevant agreements.

GENERAL INFORMATION

The Group

The Group is a leading global interconnect solutions provider and one of the few global interconnect solutions providers whose offerings span wire-based, fiber-based and wireless interconnect solutions.

Hon Hai Group

Hon Hai Group is primarily engaged in the manufacture, sales and service of connectors, case, thermal module, wired/wireless communication products, optical products, power supply modules, and assemblies for use in the IT, communications, automotive equipment, precision molding, automobile, and consumer electronics industries.

LISTING RULES REQUIREMENTS

As of the date of this announcement, the Company is indirectly owned as to 76.92% by Hon Hai, the controlling shareholding of the Company. Accordingly, Hon Hai is a connected person of the Company pursuant to Chapter 14A of the Listing Rules.

Pursuant to Rule 14A.54 of the Listing Rules, the Company should re-comply with the applicable requirements under Chapter 14A of the Listing Rules before the existing annual caps for the Product Sales Transaction and the Product Purchase Transaction for the three years ending December 31, 2019 are exceeded.

Based on the maximum amount of the Proposed Transactions Annual Caps, one or more of the relevant percentage ratios are more than 5% and the Product Sales Transaction and the Product Purchase Transaction constitute non-exempt continuing connected transactions for the Company under the Listing Rules and therefore the Product Sales Transaction, the Product Purchase Transaction and the Proposed Transactions Annual Caps are subject to the approval of the Independent Shareholders. The Product Sales Transaction and the Product Purchase Transaction are also subject to the annual review requirements under Rules 14A.55 to 14A.59 of the Listing Rules.

The Company expects to convene an extraordinary general meeting to seek the Independent Shareholders' approval for the Product Sales Transaction, the Product Purchase Transaction and the Proposed Transactions Annual Caps. Hon Hai and its associates will abstain from voting on the resolution to be proposed at the extraordinary general meeting for approving the above matters. The Independent Board Committee has been established to review and consider the Product Sales Transaction, the Product Purchase Transaction and the Proposed Transactions Annual Caps and to recommend and advise the Independent Shareholders in respect thereof. An independent financial adviser will be appointed to advise the Independent Board Committee and the Independent Shareholders in this regard and further announcement will be made by the Company upon such appointment.

A circular will be despatched to the Shareholders on or before September 25, 2017 setting out, among other things, details of the Product Sales Transaction, the Product Purchase Transaction, the Proposed Transactions Annual Caps and the respective letters from the Independent Board Committee and an independent financial adviser.

As additional time is required to prepare the relevant information to be included in the circular, the expected date of despatch of the circular is more than 15 business days after the publication of this announcement.

DEFINITIONS

“associate(s)”	having the meaning as defined in the Listing Rules;
“Board”	the board of Directors;
“Company”	FIT Hon Teng Limited (鴻騰六零八八精密科技股份有限公司), a company incorporated in the Cayman Islands with limited liability under the name Foxconn Interconnect Technology Limited on April 8, 2013 and carrying on business in Hong Kong as FIT Hon Teng Limited, the Shares of which are listed on the Main Board of the Stock Exchange;
“Director(s)”	the director(s) of the Company;
“Framework Purchase Agreement”	the framework Purchase agreement entered into between the Company and Hon Hai on November 9, 2016 (as amended by the supplemental agreement dated June 26, 2017 and including any amendment thereto from time to time);
“Framework Sales Agreement”	the framework sales agreement entered into between the Company and Hon Hai on November 9, 2016 (including any amendment thereto from time to time);
“Group”, “we” or “us”	the Company and/or its subsidiaries (as the case may be);

“Hon Hai”	Hon Hai Precision Industry Co., Ltd. (鴻海精密工業股份有限公司), a limited liability company established in Taiwan on February 20, 1974 and listed on the Taiwan Stock Exchange (Stock Code: 2317), the ultimate controlling shareholder of the Company;
“Hon Hai Group”	Hon Hai and its subsidiaries and (where relevant) 30%-controlled entities and, for the purpose of this announcement, excluding the Group;
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China;
“Independent Board Committee”	the independent board committee established by the Board to consider the Product Sales Transaction, the Product Purchase Transaction, and the Proposed Transactions Annual Caps and to advise the Independent Shareholders in respect thereof;
“Independent Shareholders”	Shareholders other than Hon Hai and its associates;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended and/or supplemented from time to time;
“percentage ratios”	the percentage ratios calculated based on the requirements under Rule 14.07 of the Listing Rules;
“Product Purchase Transaction”	purchase of various raw materials, ancillary materials and semi-finished components and assembled products by the Group from Hon Hai Group as contemplated under the Framework Purchase Agreement;
“Product Sales Transaction”	sale of various interconnect solutions and other related products manufactured or owned by the Group to Hon Hai Group as contemplated under the Framework Sales Agreement;
“Proposed Purchase Annual Caps”	the proposed annual caps for the Product Purchase Transaction for the three years ending December 31, 2019;
“Proposed Sales Annual Caps”	the proposed annual caps for the Product Sales Transaction for the three years ending December 31, 2019;
“Proposed Transactions Annual Caps”	the Proposed Purchase Annual Cap and the Proposed Sales Annual Cap;
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
“Shareholders”	the holders of the Shares;

“Share(s)”	the ordinary share(s) of US\$0.01953125 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; and
“%”	percent.

By order of the Board
FIT Hon Teng Limited*
Sung-Ching Lu
Chairman of the Board

Hong Kong, August 18, 2017

As of the date of this announcement, the Board comprises Mr. LU Sung-Ching, Mr. LU Pochin Christopher and Mr. GILLESPIE William Ralph as executive Directors, Dr. CHEN Ga-Lane as non-executive Director, and Mr. CURWEN Peter D, Mr. TANG, Kwai Chang and Mr. CHAN, Wing Yuen Hubert as independent non-executive Directors.

* *Incorporated in the Cayman Islands with limited liability under the name Foxconn Interconnect Technology Limited and carrying on business in Hong Kong as FIT Hon Teng Limited*