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If you have sold or transferred all your shares in FIT Hon Teng 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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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
PROPOSED CHANGE IN PRICING POLICY
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

**Independent Financial Adviser to
the Independent Board Committee and the Independent Shareholders**



Alliance Capital Partners Limited

同人融資有限公司

A letter from the board of directors of FIT Hon Teng Limited is set out on pages 4 to 16 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 17 of this circular. A letter from Alliance Capital Partners Limited containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 18 to 33 of this circular.

A notice convening the extraordinary general meeting of the Company to be held at 66-1, Chungshan Road, Tucheng District, New Taipei City 23680, Taiwan on June 21, 2019 at 3:30 p.m., is set out on pages 39 to 40 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 (i.e. not later than 3:30 p.m. on June 19, 2019) 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.

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DEFINITIONS

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

“Announcement”	the announcement of the Company dated May 10, 2019 regarding, among others, the proposed revision of the annual caps for the Product Purchase Transaction, Product Sales Transaction and the Sub-contracting Services Transaction for the year ending December 31, 2019 and the proposed change in the pricing policy of the Framework Purchase Agreement;
“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 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;
“(continuing) connected transaction(s)”	having the meaning as defined in the Listing Rules;
“connected person(s)”	having the meaning as defined in the Listing Rules;
“Director(s)”	the director(s) of the Company;
“EGM”	the extraordinary general meeting of the Company to be held on June 21, 2019 at 3:30 p.m. to approve the proposed revision of the annual caps for the Product Purchase Transaction, Product Sales Transaction and the Sub-contracting Services Transaction for the year ending December 31, 2019 and the proposed change in the pricing policy of the Framework Purchase Agreement, or where the context so admits, any adjournment thereof;
“Existing 2019 Product Purchase and Product Sales Annual Caps”	the annual caps for each of the Product Purchase Transaction and the Product Sales Transaction for the year ending December 31, 2019, approved by the Independent Shareholders on October 27, 2017;
“Foxconn Far East Cayman”	Foxconn (Far East) Limited, an exempted company incorporated in the Cayman Islands with limited liability which owns 100% issued shares of Foxconn Far East Hong Kong;
“Foxconn Far East Hong Kong”	Foxconn (Far East) Limited, a limited liability company incorporated in Hong Kong;
“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);

DEFINITIONS

“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);
“Framework Sub-contracting Services Agreement”	the framework sub-contracting services agreement entered into between the Company and Hon Hai on November 9, 2016;
“Group”, “we” or “us”	the Company and its subsidiaries;
“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 and listed on the Taiwan Stock Exchange (Stock Code: 2317), the 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 circular, 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 Purchase Transaction, the Product Sales Transaction, the Sub-contracting Services Transaction, the Proposed 2019 Product Purchase and Product Sales Annual Caps, the Proposed 2019 Sub-contracting Services Annual Cap and the Proposed Product Purchase Model Three Pricing Policy Change and to advise the Independent Shareholders in respect thereof;
“Independent Shareholders”	Shareholders other than Hon Hai and its associates;
“Latest Practicable Date”	May 30, 2019, being the latest practicable date prior to the printing of this circular for ascertaining certain information referred to in this circular;
“Listing”	the listing of the Company on the Stock Exchange on July 13, 2017;
“Listing Date”	July 13, 2017;
“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;

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“Proposed 2019 Product Purchase and Product Sales Annual Caps”	the proposed annual cap for the Product Purchase Transaction for the year ending December 31, 2019 and the proposed annual cap for the Product Sales Transaction for the year ending December 31, 2019;
“Proposed 2019 Sub-contracting Services Annual Cap”	the proposed annual cap for the Sub-contracting Services Transaction for the year ending December 31, 2019;
“Proposed Product Purchase Model Three Pricing Policy Change”	the proposed change in pricing policy of Model Three under the Framework Purchase Agreement;
“Prospectus”	the prospectus dated June 29, 2017 issued by the Company, a copy of which is available on the Company’s website at www.fit-foxconn.com and the Stock Exchange’s website at http://www.hkexnews.hk ;
“Restricted Share Award Scheme”	the restricted share award scheme approved and adopted by the Board on January 31, 2018 and amended on May 15, 2018 (as restated, supplemented and amended from time to time);
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended and/or supplemented from time to time;
“Share(s)”	the ordinary share(s) with nominal value of US\$0.01953125 each of the Company;
“Shareholders”	the holders of the Shares;
“Share Grant”	a share grant awarded to a participant under the Share Grant Scheme;
“Share Grant Scheme”	the share grant scheme approved and adopted by the Company on January 5, 2015, and the rules and interpretations thereof further adopted by the Board on November 4, 2016;
“Share Option Scheme”	the share option scheme approved and adopted by the Company on December 19, 2017;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Sub-contracting Services Transaction”	the sub-contracting services provided by Hon Hai Group to the Group as contemplated under the Framework Sub-contracting Services Agreement;
“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;
“Vietnam”	the Socialist Republic of Vietnam; and
“%”	percent.

LETTER FROM THE BOARD



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)

Executive Directors:

LU Sung-Ching (*Chairman*)
LU Pochin Christopher
PIPKIN Chester John

Independent Non-executive Directors:

CURWEN Peter D
TANG, Kwai Chang
CHAN, Wing Yuen Hubert
TRAINOR-DEGIROLAMO Sheldon

Registered Office:

Cricket Square
Hutchins Drive,
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Headquarters in Taiwan:

66-1, Chungshan Road
Tucheng District
New Taipei City 23680
Taiwan

*Principal Place of Business
in Hong Kong:*

31/F, Tower Two
Times Square
1 Matheson Street
Causeway Bay
Hong Kong

June 4, 2019

Dear Shareholders,

**CONTINUING CONNECTED TRANSACTIONS
PROPOSED REVISION OF ANNUAL CAPS
PROPOSED CHANGE IN PRICING POLICY
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

I. INTRODUCTION

The purpose of this circular is to provide the Shareholders with information regarding the proposed revision of the annual caps for the Product Purchase Transaction, the Product Sales Transaction and the Sub-contracting Services Transaction and the Proposed Product Purchase Model Three Pricing Policy Change, and to seek approval of the Independent Shareholders in respect of the ordinary resolutions set out in the notice of the EGM on pages 39 to 40 of this circular.

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In respect of the proposed revision of the annual caps for the Product Purchase Transaction, the Product Sales Transaction and the Sub-contracting Services Transaction and the Proposed Product Purchase Model Three Pricing Policy Change, the recommendation of the Independent Board Committee to the Independent Shareholders is set out on page 17 of this circular and the letter from Alliance Capital Partners Limited to the Independent Board Committee and the Independent Shareholders containing its advice is set out on pages 18 to 33 of this circular.

II. PROPOSED REVISION OF ANNUAL CAPS

Product Purchase Transaction and Product Sales Transaction

The Group from time to time has been carrying out the Product Purchase Transaction and the Product Sales Transaction with Hon Hai Group pursuant to the Framework Purchase Agreement and the Framework Sales Agreement both for a term up to December 31, 2019. The Product Purchase Transaction and the Product Sales Transaction constitute non-exempt continuing connected transactions for the Company under the Listing Rules, and the Company has set the annual caps for the Product Sales Transaction and the Product Purchase Transaction for each of the three years ended/ending December 31, 2019, respectively.

Product Purchase Transaction

The Product Purchase Transactions can generally be classified into three models:

- *Model One.* Gold salts, one of the major raw materials, is a hazardous material allowed to be sold only by licensed suppliers in the PRC. Hon Hai Group is one of the licensed suppliers and has been a supplier of the Group. In addition, due to Hon Hai Group's economies of scale, the processing fees are generally competitive when compared with other suppliers.
- *Model Two.* The Group purchases certain ancillary materials from Hon Hai Group, either as an approved supplier designated by the Group's customers or due to its competitive prices compared to other suppliers.
- *Model Three.* In order to enhance the Group's production efficiency and manage its production cost, the Group from time to time engages Hon Hai Group, for certain labor-intensive production processing of its interconnect solutions and certain other products. Hon Hai Group has been a long-term supplier of manufacturing vendor services of the Group with the expertise to manage a large workforce.

Pursuant to the Framework Purchase Agreement, the Group and Hon Hai Group will carry out the Product Purchase Transactions subject to the terms and conditions set out therein at a price determined as follows:

- *Model One.* For the procurement of gold salts, at the price equivalent to the sum of the commodity spot prices and the processing fees. The Group will obtain and compare fee proposals provided by Hon Hai Group and independent third party suppliers on a quarterly basis to the extent practicable. As a risk control measure, the Group will procure gold salts from more than one supplier, but will allocate at least 70% annual purchase from the supplier with the lowest fee quote; or

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- *Model Two.* For the procurement of ancillary raw materials from Hon Hai Group that is designated by the Group's customers, at the price agreed between Hon Hai Group and the Group's 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
- *Model Three.* 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.

The pricing policy above has been disclosed in the Prospectus, announcements of the Company dated 18 August 2017 and 14 May 2018, and the circulars of the Company dated 12 October 2017 and 6 June 2018. The Company has also proposed the Proposed Product Purchase Model Three Pricing Policy Change in place of the Existing Model Three Pricing Policy. For details, please refer to the section headed "Change in Pricing Policy" below.

As to the 70% threshold set out in Model One above, the procurement department of the Company ensures the compliance of the 70% threshold by placing orders for the first three weeks of each month with its gold salts supplier with the lowest quote. It also prepares a monthly report of actual purchase amounts for management's review as to the compliance of the 70% threshold.

Product Sales Transaction

The Company's products are sold to, among others, contract manufacturers and brand company customers. Contract manufacturers incorporate the Company's interconnect solutions with a vast number of other components and modules and assemble them into finished products at the specification of their customers, generally brand companies. Brand companies generally market and sell their finished products to end users. Hon Hai Group is a leading contract manufacturer which is involved in, among others, assembling the finished products for brand companies and many brand companies often require Hon Hai Group to purchase the relevant parts and components, including the Company's interconnect solutions, from specific approved suppliers like the Company, as part of the assembly process for better quality control and overall supply chain management.

Please refer to the section headed "Business — Our Customers" of the Prospectus for further details of the transaction model described above. To the best knowledge and information of the Company and as of the Latest Practicable Date, brand company customers of the Company are independent third parties of the Company and Hon Hai Group.

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 the Group's brand company customers, at the price negotiated and determined between the Group's brand company customers and the Group; or
- (2) for other sales to Hon Hai Group where selling prices were not designated by the Group's 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

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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.

The pricing policy above has been disclosed in the Prospectus, announcements of the Company dated 18 August 2017 and 14 May 2018, and the circulars of the Company dated 12 October 2017 and 6 June 2018.

As more particularly set out in the section headed “Connected Transaction — Non-exempt Continuing Connected Transactions — (c) Framework Sales Agreement” of the Prospectus, in respect of the 6.5% blended profit margin, the Company believes it is industry practice to (1) grant large customers volume discounts; (2) give long-term customers with repeated sales and sustainable businesses price discounts as this would incur lower negotiation, coordination and logistics costs and subject the Company to lower exposure to credit risks, as compared to dealing with new customers; and (3) offer better pricing terms to customers with long-term strategic value to the Company. Having considered that (a) Hon Hai Group accounted for 23.0%, 24.8% and 25.1% of the Group’s revenue in 2016, 2017 and 2018 respectively and the relative magnitude of such amounts vis-a-vis revenue contribution from the other customers, (b) the Company’s long-term business cooperation with Hon Hai Group since the Company’s inception which the Company believes subject it to minimal credit risk as compared to other third party customers, and (c) being part of the ecosystem of Hon Hai Group brings the Company significant strategic value, the Directors are of the view that the 6.5% capped difference in the blended profit margin is under normal commercial terms, fair and reasonable, and in the interests of the Shareholders as a whole.

The “blended profit margin” is calculated by dividing blended gross profit by revenue from customers during a specific period. Blended gross profit is calculated by aggregating the revenue generated from specific customers less the historical unit cost allocated to such sales for the preceding month multiplied by number of units sold. The Company will calculate the blended gross margin for Connected Sales and for Third Party Sales, respectively, and compare the two to determine whether the difference exceeds 6.5%.

As an internal control measure for compliance with the 6.5% threshold, the management of the Company reviews and monitors whether the difference exceeds the 6.5% threshold, at least on a quarterly basis, and takes appropriate measures to ensure compliance from time to time based on the review results. If the management determines that there is a risk for exceeding the 6.5% threshold on an annual basis, it will increase the frequency of review as appropriate and take further measures to ensure compliance.

Historical Values and Annual Caps

On August 18, 2017, the Company announced that the original annual caps of the Product Sales Transaction and the Product Purchase Transaction were expected to be exceeded and proposed the revised annual caps for each of the three years ended/ending December 31, 2019, which were approved by the Independent Shareholders on October 27, 2017 and thus constitute the Existing Product Purchase and Product Sales Annual Caps. The 2019 Existing Product Purchase and Product Sales Annual Caps are set out in the table below.

On May 14, 2018, the Company announced that the original annual caps of the Product Purchase Transaction and the Product Sales Transaction were expected to be exceeded and proposed the revised annual caps for the year ended December 31, 2018, which were approved by the Independent Shareholders on June 22, 2018.

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It is expected that the transaction amounts under each of the Product Purchase Transaction and the Product Sales Transaction for the year ending December 31, 2019 will be increased for the following reasons:

- Recent investments and acquisitions leading to increase in transaction amounts — As disclosed in the announcements of the Company dated February 7, 2018, March 27, 2018 and May 28, 2018, the Group invested in and acquired in 2018 certain companies or business units which engage in the design, production and development of applications that utilize the Group's interconnect solutions in the automotive, industrial and medical end market (including smart home, wearable devices and electric vehicles), including but not limited to the formation of joint venture with Sharp Corporation and the acquisition of Belkin International, Inc. by way of merger. Following the completion of such investments and acquisitions, these companies and business units became part of the Group, and their purchase and sales of various raw materials, ancillary materials and semi-finished components and assembled products with Hon Hai Group will be accounted as part of the Group's purchase and sales with Hong Hai Group. Accordingly, the revised projections have taken into account the historical transaction amounts between these companies and Hon Hai Group, which are reflected in an approximate 3.0% increase in the projection of Product Purchase Transaction for 2019, and an approximate 7.0% increase in the projection of Product Sales Transaction for 2019.
- Further outsourcing of assembly processes to Hon Hai Group — In order to control production costs, the Company has been outsourcing certain non-core, labor-intensive assembly processes to certain production facilities of Hon Hai Group located in Vietnam. The benefits to the Group include (i) the reduction of production costs by leveraging on the economies of scale of Hon Hai Group's large production capacity, and (ii) the ability to avoid ramping up the Group's production capacity drastically in response to seasonal and fluctuating customer demands. In light of the above benefits, since 2018, the management of the Company has been allocating more of these assembly processes to Hon Hai Group's production facilities in Vietnam. As a result, the Group will sell more interconnect solutions and other related products to Hon Hai Group for its assembling and production, and then purchase more semi-finished components and assembled products from Hon Hai Group, and thus increasing the amount of the Product Purchase Transaction and the Product Sales Transaction.
- Increase in sales of interconnect solutions and other related products to Hon Hai Group utilizing the Group's surface processing capacities — To fully utilize the superior resources of plating devices, the Company has decided to provide the surface processing service to Hon Hai Group. Accordingly, there is expected to be an increase in the sales of interconnect solutions and other related products utilizing the Group's surface processing capacities to Hon Hai Group, thus increasing the amount of the Product Sales Transaction. In view of the increase in sales of interconnect solutions and other related products, the Company expects to purchase approximately 22.0% more gold salts that are used in the production of interconnect solutions and other related products, as well as in the surface processing process from Hon Hai Group in 2019 compared to 2018, which also contributes to part of the increase in Product Purchase Transactions for 2019.
- Rising customer demand — The rising customer demand for the Group's products has raised the amount of the Product Purchase Transaction and the Product Sales Transaction. Based on the latest available actual amounts of the transactions under the Product Purchase Transaction and the Product Sales Transaction during the period from January 1, 2019 to March 31, 2019 (both dates inclusive), transactions under such two categories have reached approximately 13.6% and 13.8% of the respective Existing 2019 Product Purchase and Product Sales Annual Caps. This is because, based on the Company's experience in the industry, brand companies, particularly those in the computer and consumer electronics and mobile and wireless end markets, (i) typically choose to release new product offerings in the second half of each year and (ii) tend to increase their purchases in preparation of peak sales holiday seasons. Accordingly,

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the Company expects the demand for various interconnect solutions and other related products, including gold salts, ancillary raw materials and semi-finished goods and assembled products to rebound in the second half of this year which will further drive up the amount under the Product Purchase Transaction and the Product Sales Transaction, respectively.

Taking into account factors set out above, it is anticipated that there will be additional needs to purchase certain assembled products from and sell the Group's interconnect solutions and other related products to Hon Hai Group under the Product Purchase Transaction and the Product Sales Transaction, respectively. Accordingly, the Company envisages that the Existing 2019 Product Purchase and Product Sales Annual Caps may not be sufficient and has therefore proposed the Proposed 2019 Product Purchase Annual Cap and the Proposed 2019 Product Sales Annual Cap instead.

The table below sets out (a) the historical actual amounts of the Product Purchase Transaction and the Product Sales Transaction for the three years ended December 31, 2018 and the three months ended March 31, 2019; (b) the Existing 2019 Product Purchase and Product Sales Annual Caps; and (c) the Proposed 2019 Product Purchase and Product Sales Annual Caps.

<i>(in US\$ millions)</i>	Actual transaction amounts				Existing 2019 Annual Caps	Proposed 2019 Product Purchase and Product Sales Annual Caps
	Year ended December 31,		Three months		Year ending	Year ending
	2016	2017	2018	ended March 31, 2019	December 31, 2019	December 31, 2019
Product Purchase Transaction	398.5	437.9	436.3	85.6	620.3	680.0
Product Sales Transaction	661.1	844.4	931.4	178.8	1,309.1	1,465.0

The Proposed 2019 Product Purchase and Product Sales 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 Purchase Transaction and the Product Sales Transaction during the period from January 1, 2019 to March 31, 2019 (both dates inclusive);
- the historical growth and budget of the Product Purchase Transaction and the Product Sales Transaction;
- the expected growth of the Group's existing businesses in 2019 in view of increase in price of certain products (such as lightning cable) due to product upgrade, as well as increase in orders of certain products (such as optical modules);
- the increase in the amount of continuing connected transactions due to the investment in or acquisition of certain companies or business units in 2018; and
- the changes in production strategy as a result of the Group's production costs control measures in 2019.

LETTER FROM THE BOARD

Having considered the above reasons and that the connector industry and its competitive landscape are highly dynamic, the Company has calculated and proposed the Proposed 2019 Product Purchase and Product Sales Annual Caps based on the best estimates of the Company and on a prudent basis.

Sub-contracting Services Transaction

Pursuant to the Framework Sub-contracting Services Agreement, Hon Hai Group has agreed to provide the Group with sub-contracting services from time to time for a term of three years commencing on the Listing Date and subject to the terms and conditions therein at sub-contracting fees determined based on relevant (i) labor costs and overheads and (ii) handling fee up to 5% of relevant labor costs and overheads. Where such cost break-down is not readily available, the subcontracting fees are determined with reference to comparable third-party prices.

Historical Values and Annual Caps

As disclosed in the section headed “Connected Transaction — Non-exempt Continuing Connected Transactions” of the prospectus of the Company dated June 29, 2017, the Company has set the existing annual caps for the Sub-contracting Services Transaction for each of the three years ending December 31, 2019.

As disclosed in the announcement of the Company dated October 16, 2018, the Company has set the existing annual cap for the Sub-contracting Services Transaction for the year ended December 31, 2018.

Due to the completion of certain acquisitions and formation of joint venture of the Group in 2018 resulting in an increasing demand for the Sub-contracting Services Transaction, the Company envisages that the existing annual cap for the Sub-contracting Services Transaction, for the year ending December 31, 2019, may not be sufficient and has therefore proposed the Proposed 2019 Sub-contracting Services Annual Cap in place of such existing annual cap.

As disclosed in the section headed “(I) Proposed Revision of Annual Caps — Product Purchase Transaction and Product Sales Transaction” above, the Company has been outsourcing certain non-core, labor-intensive assembly processes to certain production facilities of Hon Hai Group located in Vietnam in order to control production costs. There has also been discussions between the Group and Hon Hai Group that to change part of the business mode of such outsourcing from product sales and purchase to provision of sub-contracting services, pursuant to which Hon Hai Group will provide sub-contracting services for the Group’s assembly processes, resulting in an increasing demand for the Sub-contracting Services Transaction. Therefore, the Company envisages that the existing annual cap for the Sub-contracting Services Transaction, for the year ending December 31, 2019, may not be sufficient and has proposed the Proposed 2019 Sub-contracting Services Annual Cap in place of such existing annual cap.

LETTER FROM THE BOARD

The table below sets out (a) the historical actual amounts of the Sub-contracting Services Transaction for the three years ended December 31, 2018 and three months ended March 31, 2019; (b) the existing annual cap for the Sub-contracting Services Transaction for the year ending December 31, 2019; and (c) the Proposed 2019 Sub-contracting Services Annual Cap.

<i>(in US\$ millions)</i>	Actual transaction amounts				Existing 2019	Proposed 2019
					Annual Cap	Sub-contracting
					Year ending	Services
	Year ended December 31,	Three months			December 31,	Year ending
	2016	2017	2018	ended March 31, 2019	2019	December 31, 2019
Sub-contracting						
Services Transaction	75.7	72.9	106.6	27.1	106.7	240.0

The Proposed 2019 Sub-contracting Services Annual Cap is determined with reference to projections of the Company which in turn are prepared by the Company mainly with reference to the following major factors: (i) the historical amounts of sub-contracting fees payment in 2018; (ii) the latest available actual amounts of sub-contracting fees under the Sub-contracting Services Transaction during the period from January 1, 2019 to March 31, 2019 (both dates inclusive); and (iii) the expected increase in transaction amount of the transactions under the sub-contracting services agreements proposed to be entered into by the Group due to organic growth of the Group's business as well as the investment in or acquisition of certain companies or business units in 2018.

III. CHANGE IN PRICING POLICY

Product Purchase Transaction

As disclosed above, pursuant to the Framework Purchase Agreement, the Group has agreed to purchase from Hon Hai Group various 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:

- *Model Three.* 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 the Group, (b) Hon Hai Group's purchase prices of other raw materials, (c) Hon Hai Group's labor costs and overheads, and (d) handling fees up to 5% of relevant labor cost and overheads. (the **"Existing Product Purchase Model Three Pricing Policy"**)

As disclosed above, following the completion of the Group's investment in and acquisition of certain companies and business units in 2018, the Existing Product Purchase Model Three Pricing Policy may not be able to satisfy the future business dealings between the Group and Hon Hai Group in relation to the procurement of semi-finished goods and assembled products in terms of, among other things, the product upgrade and the amount of production involved. There is also production line enhancement implemented in Hon Hai Group in response to the product upgrade. As a result, the existing handling fees up to 5% of relevant labor cost and overheads may not be able to provide a reasonable profit margin to Hon Hai Group. The Company has therefore proposed the Proposed Product Purchase Model Three Pricing Policy Change in place of the Existing Product Purchase Model Three Pricing Policy:

- 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 the Group, (b) Hon Hai Group's purchase prices of other raw materials, (c) Hon Hai Group's labor costs and

LETTER FROM THE BOARD

overheads, and (d) handling fees up to 8% of relevant material cost, labor cost and overheads; or determined with reference to comparable third party prices to the extent independent third party suppliers are available.

The increase in the handling fees from up to 5% to 8% is determined primarily to provide a reasonable profit margin to Hon Hai Group in view of the product upgrade and increase in amount of production involved resulting from the Group's recent acquisitions and investments, as well as Hon Hai Group's production line enhancement in response thereto, which is also consistent with the overall profit margin level for the year of 2018 of the specific contracting party within Hon Hai Group for Model Three transactions, being Foxconn Industrial Internet Co., Ltd., a company listed on the Shanghai Stock Exchange. Despite the increase in the handling fees, the Directors expect that by leveraging on Hon Hai Group's production facilities in Vietnam for Model Three transactions, the Group would still be able to achieve a better production efficiency than if the Group were to use its own production facilities in Jiangsu, PRC for such productions, primarily due to lower labour costs in Vietnam as compared to that in Jiangsu.

Pursuant to the Proposed Product Purchase Model Three Pricing Policy Change, where independent third party suppliers are available, the Group will obtain quotes from the independent third party suppliers and compare the quotes against the price offered by Hon Hai Group. If Hon Hai Group cannot offer comparable price that can match the quotes from the independent third party suppliers, the Group will procure semi-finished goods and assembled products from the independent third party suppliers. On the basis of the above, the Directors take the view that the Proposed Product Purchase Model Three Pricing Policy Change provides flexibility and an extra layer of protection to the interests of the Company and Shareholders as a whole.

IV. REASONS FOR AND BENEFITS IN RELATION TO THE TRANSACTIONS

In respect of the Product Purchase Transaction and the Product Sales Transaction and Proposed Product Purchase Model Three Pricing Policy Change, the Company strategically focuses on automotive and other emerging applications of the Group's interconnect solutions and related products, part of the procurement and sales of which are carried out with associates of Hon Hai and connected persons of the Company to reduce production costs and increase profits. The Company therefore considers it in the best interests to generate more income and save cost by carrying out the Product Purchase Transaction and the Product Sales Transaction in response to the latest development of the Company's business plans, provided that the Group purchases from and sells to Hon Hai Group at prices pursuant to the pricing policies set forth in the Framework Purchase Agreement and the Framework Sales Agreement.

In respect of the Sub-contracting Services Transaction, the Company is of the view that it is in the interest of the Company to enhance the production efficiency and manage the production cost by sub-contracting certain labor-intensive production processing of its interconnect solutions and other products to Hon Hai Group, which possesses the necessary expertise in providing assembly services to quickly respond to increased demand from the Company's customers and to deliver required products in large volumes.

In view of the above, the Directors (including the independent non-executive Directors whose view is set out in the Letter from the Independent Board Committee) consider that the Proposed 2019 Product Purchase and Product Sales Annual Caps, the Proposed 2019 Sub-contracting Services Annual Cap and the Proposed Product Purchase Model Three Pricing Policy Change are fair and reasonable, and the terms

LETTER FROM THE BOARD

of the Product Purchase Transaction, the Product Sales Transaction and the Sub-contracting Services Transaction are fair and reasonable, on normal commercial terms, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

None of the Directors (including the independent non-executive Directors) has a material interest in any of the Product Purchase Transaction, the Product Sales Transaction and the Sub-contracting Services Transaction.

V. INTERNAL CONTROL

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

- Before entering into a transaction under the continuing connected transactions of the Company, the purchase, operation and/or other functional 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 not designated by the Group's customers, will compare the pricing to comparable third-party prices to the extent independent-third-party suppliers are available. 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 operation management department of the Group will review the aforesaid works carried out by the purchase, operation and/or other functional departments (as the case may be) on a quarterly basis.
- The operation management department of the Company is primarily responsible for reviewing and monitoring, on a monthly basis and from time to time, 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. Each quarter, the operation management department will also conduct a review on a random sampling basis. The operation management department of the Company will consult with the Group's internal audit function, external lawyers and the compliance adviser in respect of continuing connected transaction compliance issues and annually report to the head of the operation 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.

LETTER FROM THE BOARD

- 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.

VI. 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. It is also a global consumer electronics leader, connecting people with technologies at home, at work and on the go.

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.

VII. LISTING RULES IMPLICATIONS

As of the Latest Practicable Date, the Company is indirectly owned as to 76.48% by Hon Hai, the controlling shareholder 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 are exceeded.

Based on the Proposed 2019 Product Purchase and Product Sales Annual Caps and the Proposed 2019 Sub-contracting Services Annual Cap, one or more of the relevant percentage ratios are more than 5% and the Product Purchase Transaction, the Product Sales Transaction and the Sub-contracting Services Transaction constitute non-exempt continuing connected transactions for the Company under the Listing Rules and therefore the Proposed 2019 Product Purchase and Product Sales Annual Caps and the Proposed 2019 Sub-contracting Services Annual Cap are subject to the approval of the Independent Shareholders.

Given that the Proposed Product Purchase Model Three Pricing Policy Change is a material change to the terms of the Framework Purchase Agreement, the Proposed Product Purchase Model Three Pricing Policy Change is also subject to the approval of the Independent Shareholders.

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 Product Purchase Transaction, the Product Sales Transaction and the Sub-contracting Services Transaction are also subject to the annual review requirements under Rules 14A.55 to 14A.59 of the Listing Rules.

LETTER FROM THE BOARD

The Board has established the Independent Board Committee to review, consider and recommend the Proposed 2019 Product Purchase and Product Sales Annual Caps, the Proposed 2019 Sub-contracting Services Annual Cap and the Proposed Product Purchase Model Three Pricing Policy Change and to advise the Independent Shareholders in respect thereof, and has appointed Alliance Capital Partners Limited as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard. The Board shall ensure the information referred to in this circular continues to be true, accurate and complete as at the date of the EGM, otherwise the Company will notify the Shareholders of any material changes as soon as practicable in compliance with Listing Rules.

As none of the Directors has any material personal interest in the Product Purchase Transaction, the Product Sales Transaction and the Sub-contracting Services Transaction, none of the Directors has abstained from voting on the board resolution to approve the Product Purchase Transaction, the Product Sales Transaction, the Sub-contracting Services Transaction, the Proposed 2019 Product Purchase and Product Sales Annual Caps, the Proposed 2019 Sub-contracting Services Annual Cap and the Proposed Product Purchase Model Three Pricing Policy Change.

VIII. RECOMMENDATION

After taking into account the view of the Independent Board Committee as set out in this circular and the reasons for and benefits of the Product Purchase Transaction, the Product Sales Transaction, the Sub-contracting Services Transaction, the Directors are of the view that the terms of the Framework Purchase Agreement, the Framework Sub-contracting Services Agreement, the Proposed 2019 Product Purchase and Product Sales Annual Caps, the Proposed 2019 Sub-contracting Services Annual Cap and the Proposed Product Purchase Model Three Pricing Policy Change are fair and reasonable, on normal commercial terms, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders to vote in favor of the ordinary resolutions to approve the Proposed 2019 Product Purchase and Product Sales Annual Caps, the Proposed 2019 Sub-contracting Services Annual Cap and the Proposed Product Purchase Model Three Pricing Policy Change at the EGM.

IX. EGM

A notice convening the EGM to be held at 66-1, Chungshan Road, Tucheng District, New Taipei City 23680, Taiwan on June 21, 2019 at 3:30 p.m., is set out on pages 39 to 40 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 2019 Product Purchase and Product Sales Annual Caps, the Proposed 2019 Sub-contracting Services Annual Cap and the Proposed Product Purchase Model Three Pricing Policy Change.

The ordinary resolutions proposed at the EGM will be determined by way of poll by the Independent Shareholders relating to the Proposed 2019 Product Purchase and Product Sales Annual Caps, the Proposed 2019 Sub-contracting Services Annual Cap and the Proposed Product Purchase Model Three Pricing Policy Change.

Pursuant to Rule 14A.36 of the Listing Rules, any connected person and any Shareholder and their respective associates with a material interest (other than by virtue of being a Shareholder) in the Product Purchase Transaction, the Product Sales Transaction and the Sub-contracting Services Transaction are required to abstain from voting at the EGM. Hon Hai and its associates who in aggregate were interested in 5,179,557,888 Shares (representing approximately 76.48% the total number of Shares in issue) as of the Latest Practicable Date are required to and will abstain from voting at the EGM in respect of the ordinary resolution approving the Proposed 2019 Product Purchase and Product Sales Annual Caps, the Proposed 2019 Sub-contracting Services Annual Cap and the Proposed Product Purchase Model Three Pricing Policy Change.

LETTER FROM THE BOARD

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, 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 EGM (i.e. not later than 3:30 p.m. on June 19, 2019) 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.

X. CLOSURE OF REGISTER OF MEMBERS

For the purpose of ascertaining the Shareholders' entitlement to attend and vote at the EGM, the register of members of the Company will be closed from June 18, 2019 to June 21, 2019 both days inclusive, during which period no transfer of Shares will be registered. In order to qualify for attending and voting at the EGM, all transfers accompanied by the relevant share certificates must be lodged with the branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Monday, June 17, 2019.

XI. GENERAL

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

Yours faithfully,
For and on behalf of the Board
FIT Hon Teng Limited*
LU Sung-Ching
Chairman of the Board

* *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*



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)

June 4, 2019

Dear Independent Shareholders,

**CONTINUING CONNECTED TRANSACTIONS
PROPOSED REVISION OF ANNUAL CAPS
PROPOSED CHANGE IN PRICING POLICY**

We refer to the circular dated June 4, 2019 of the Company (the “**Circular**”) of which this letter forms part. Terms defined in the Circular bear the same meanings herein unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to advise you regarding the fairness and reasonableness of the Proposed 2019 Product Purchase and Product Sales Annual Caps, the Proposed 2019 Sub-contracting Services Annual Cap and the Proposed Product Purchase Model Three Pricing Policy Change. Alliance Capital Partners Limited has been appointed as the independent financial adviser to advise us and the Independent Shareholders in this regard.

Having considered the Proposed 2019 Product Purchase and Product Sales Annual Caps, the Proposed 2019 Sub-contracting Services Annual Cap and the Proposed Product Purchase Model Three Pricing Policy Change, and having taken into account the principal factors and reasons considered by, and the opinion of, Alliance Capital Partners Limited as stated in its letter dated June 4, 2019, we consider that the Proposed 2019 Product Purchase and Product Sales Annual Caps, the Proposed 2019 Sub-contracting Services Annual Cap and the Proposed Product Purchase Model Three Pricing Policy Change are fair and reasonable, on normal commercial terms, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favor of the ordinary resolution proposed at the EGM approving the Proposed 2019 Product Purchase and Product Sales Annual Caps, the Proposed 2019 Sub-contracting Services Annual Cap and the Proposed Product Purchase Model Three Pricing Policy Change.

We draw the attention of the Independent Shareholders to (i) the letter from the Board; (ii) the letter from Alliance Capital Partners Limited; and (iii) the appendix to the Circular.

Yours faithfully,

Independent Board Committee

CHAN,

CURWEN Peter D

TANG, Kwai Chang

Wing Yuen Hubert

TRAINOR-

DEGIROLAMO Sheldon

Independent Non-executive Directors

LETTER FROM ALLIANCE CAPITAL PARTNERS LIMITED

The following is the text of Letter from Alliance Capital Partners Limited to the Independent Board Committee and the Independent Shareholders, prepared for the purpose of inclusion in this circular.



Alliance Capital Partners Limited
同人融資有限公司

Room 1502-03A, Wing On House
71 Des Voeux Road Central, Central
Hong Kong

June 4 2019

*To: The Independent Board Committee and the Independent Shareholders
of FIT Hon Teng Limited*

CONTINUING CONNECTED TRANSACTIONS PROPOSED REVISION OF ANNUAL CAPS AND PROPOSED CHANGE IN PRICING POLICY

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the proposed revision of the annual caps for the (i) Framework Purchase Agreement, (ii) Framework Sales Agreement, and (iii) Framework Sub-contracting Services Agreement (collectively, the “**Framework Agreements**”), and proposed change in pricing policy of Model Three under the Framework Purchase Agreement, details of which are set out in letter from the board (the “**Letter from the Board**”) contained in the circular dated June 4 2019 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Unless otherwise defined, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

As set out in the Letter from the Board, it is anticipated that the existing annual cap for the Product Purchase Transaction for the year ending 31 December 2019 (the “**Existing 2019 Product Purchase Annual Cap**”), the existing annual cap for Product Sales Transaction for the year ending 31 December 2019 (the “**Existing 2019 Product Sales Annual Cap**”), the existing 2019 annual cap for the Sub-contracting Services Transaction for the year ending 31 December 2019 (the “**Existing 2019 Sub-contracting Services Annual Cap**”) (together, the “**Existing 2019 Annual Caps**”) may not be sufficient, and, due to the anticipated change in business model between the Group and the Hon Hai Group, the Existing Product Purchase Model Three Pricing Policy may not be able to satisfy the future business dealings between the Group and the Hon Hai Group.

The Company is indirectly owned as to 76.48% 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 Proposed 2019 Product Purchase Annual Caps, the Proposed 2019 Product Sales Annual Caps, and the Proposed 2019 Sub-contracting Services Annual Cap (collectively, the “**Proposed 2019 Annual Caps**”), one or more of the relevant percentage ratios are more than 5%, and the Product Purchase Transaction, the Product Sales Transaction and the Sub-contracting Services Transaction (collectively, the “**Transactions**”) constitute non-exempt continuing connected transactions for the Company under the Listing Rules, the Transactions and the Proposed 2019 Annual Caps are subject to the approval of the Independent Shareholders.

LETTER FROM ALLIANCE CAPITAL PARTNERS LIMITED

Given that the Proposed Product Purchase Model Three Pricing Policy Change is a material change to the terms of the Framework Purchase Agreement, the Proposed Product Purchase Model Three Pricing Policy Change is also subject to the approval of the Independent Shareholders.

The Company expects to convene an extraordinary general meeting to seek the Independent Shareholders' approval for the Proposed 2019 Annual Caps, and the Proposed Product Purchase Model Three Pricing Policy Change. Hon Hai and its associates will abstain from voting on the resolution(s) to be proposed at the extraordinary general meeting for approving the above matters.

THE INDEPENDENT BOARD COMMITTEE

As at the Latest Practicable Date, the Independent Board Committee, comprising all of the independent non-executive Directors of the Company (namely Mr. CURWEN Peter D, Mr. TANG Kwai Chang, Mr. CHAN Wing Yuen Hubert and Mr. TRAINOR-DEGIROLAMO Sheldon) who have no direct or indirect interest in the Transactions, has been established to advise the Independent Shareholders as to whether the Proposed 2019 Annual Caps, and the Proposed Product Purchase Model Three Pricing Policy Change, are fair and reasonable and in the interests of the Company and the Shareholders as a whole. In this regard, we, Alliance Capital Partners Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on this matter.

In the past two years, we were appointed in April 2018 as independent financial adviser to the Company for the proposed revision of annual caps for certain continuing connected transaction for the year ended 31 December 2018, and our opinion letter was included in the Company's circular dated 6 June 2018. Apart from the normal advisory fee paid to us in connection with this transaction, we do not have any business dealings with the Company since then.

Apart from the normal advisory fee payable to us in connection with our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders, there is no relationship or interests with the Company, the Group, the Hon Hai Group, or any of their respective associates, or any other parties that could reasonably be regarded as relevant to our independence, and we are not involved in any discussion pertaining to the Transactions. We consider that we are independent under Rule 13.84 of the Listing Rules.

BASIS OF OUR ADVICE

In arriving at our recommendations, we have relied on the statements, information and representations contained in the Circular and the information and representations provided to us by the Directors and senior management (collectively, the "**Management**") of the Company. We have assumed that all information and representations contained or referred to in the Circular and all information and representations which have been provided by the Management of the Company are true and accurate at the time they were made and will continue to be true and accurate as at the date of the despatch of the Circular.

The Management collectively and individually accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, information contained in the 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 contained in the Circular misleading. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Management of the Company. We consider that we have been provided with sufficient information on which to form a reasonable basis for our opinion. We have no reason to suspect that any relevant information has been withheld, nor are

LETTER FROM ALLIANCE CAPITAL PARTNERS LIMITED

we aware of any facts or circumstances which would render the information provided and representations made to us untrue, inaccurate or misleading. We consider that we have performed all the necessary steps to enable us to reach an informed view and to justify our reliance on the information provided to us so as to provide a reasonable basis for our opinion. We have not, however, carried out any independent verification of the information provided by the Management of the Company, nor have we conducted an independent investigation into the business and affairs or the prospects of the Company, the Group, Hon Hai Group, or any of their respective associates. As set out in the Letter from the Board, we understand that the Management shall ensure the information referred to in the Circular continues to be true, accurate and complete as at the date of the EGM. The Company will notify the Shareholders of any material changes as soon as practicable, if any.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources which are the latest information publicly available to the best of our knowledge, the sole responsibility of Alliance Capital Partners Limited is to ensure that such information has been correctly extracted from the relevant sources.

PRINCIPAL FACTORS AND FACTORS CONSIDERED

In formulating our opinion on the Proposed 2019 Annual Caps, and the Proposed Product Purchase Model Three Pricing Policy Change, we have taken into consideration the following principal factors and reasons:

1. Background of the Group

The Group is principally involved in the manufacture, sales and service of connector, case, thermal module, wired/wireless communication products, power supply modules, and assemblies for use in the information technology, communications, automotive equipment, precision moulding, automobile, and consumer electronics industries.

Below set out are certain key audited consolidated financial information of the Group, as extracted from the annual report for the year ended 31 December 2018 (“**2018 Annual Report**”):

	For the year ended 31 December		Growth rate
	2017	2018	
	<i>US\$'000</i>	<i>US\$'000</i>	<i>(%)</i>
Revenue	3,398,803	4,005,635	17.9
Gross profit	544,995	708,077	29.9
<i>Gross profit margin</i>	<i>16.0%</i>	<i>17.7%</i>	<i>10.6</i>
Operating profit	219,826	308,552	40.4
<i>Operating profit margin</i>	<i>6.5%</i>	<i>7.7%</i>	<i>19.1</i>
Profit for the year	180,486	232,675	28.9
<i>Net profit margin</i>	<i>5.3%</i>	<i>5.8%</i>	<i>9.4</i>

LETTER FROM ALLIANCE CAPITAL PARTNERS LIMITED

As disclosed in the 2018 Annual Report, the Group recorded a sales growth in all six main end markets, among which the revenue generated from (i) the mobile devices end market, (ii) the communications infrastructure end market, (iii) the computer and consumer electronics end market, (iv) the automotive, industry and medical end market, (v) the connected home market and (vi) the smart accessories market increased by approximately 9.3%, 8.5%, 11.3%, 38.2%, 366.9% and 387.5% respectively, for the year ended 31 December 2018. As such, the Group achieved a significant increase in revenue of approximately US\$607 million, or 17.9%, from approximately US\$3,399 million for the year ended 31 December 2017 to approximately US\$4,006 million for the year ended 31 December 2018.

Recent investments and mergers

As disclosed in the announcements of the Company dated 7 February 2018, 27 March 2018, 28 May 2018, 22 June 2018, 30 July 2018, 6 September 2018 and 21 September 2018, the Group invested in and acquired certain companies or business units in 2018 which engage in the design, production and development of applications that utilise the Group's interconnect solutions in the automotive, industrial and medical end market (including smart home, wearable devices and electric vehicles), including but not limited to the formation of joint venture with Sharp Corporation and the acquisition of Belkin International, Inc. by way of merger. The Management believed that, after the completion of these investments and acquisitions, the Group could be able to explore more opportunities and strengthen its business models in the targeted end markets. As disclosed in 2018 Annual Report, the remarkable growth in the Group's revenue from the connected home market and the smart accessories market, of 366.9% and 387.5% respectively, was mainly contributed by the successful acquisition of Belkin International, Inc.

Following the completion of such investments and acquisitions, these companies and business units became part of the Group, and their purchase and sales of various raw materials, ancillary materials and semi-finished components and assembled products with Hon Hai Group will be accounted as part of the Group's purchase and sales with Hong Hai Group.

2. Background of Hon Hai Group

Hon Hai Group, a limited liability company established in Taiwan, the shares of which are listed on the Taiwan Stock Exchange (Stock code: 2317). Hon Hai Group is a controlling shareholder of the Company and 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 moulding, automobile, and consumer electronics industries.

LETTER FROM ALLIANCE CAPITAL PARTNERS LIMITED

3. Reasons for and benefits in relation to the continuing connected transactions

In respect of the Product Purchase Transaction and the Product Sales Transaction, the Group strategically focuses on automotive and other emerging applications of the Group's interconnect solutions and related products, part of the procurement and sales of which are carried out with associates of Hon Hai and connected persons of the Company to reduce production costs and increase profits. The Company therefore considers it in the best interests to generate more income and save cost by carrying out the Product Purchase Transaction and the Product Sales Transaction in response to the latest development of the Company's business plans, provided that the Group purchases from and sells to Hon Hai Group at prices pursuant to the pricing policies set forth in the Framework Purchase Agreement and the Framework Sales Agreement.

In respect of the Sub-contracting Services Transaction, the Company is of the view that it is in the interest of the Company to enhance the production efficiency and manage the production cost by sub-contracting certain labour-intensive production processing of its interconnect solutions and other products to Hon Hai Group, which possesses the necessary expertise in providing assembly services to quickly respond to the demand from the Company's customers and to deliver required products in large volumes.

4. Principal terms of the Framework Agreements

(a) Framework Purchase Agreement

Pursuant to the Framework Purchase Agreement, the Group may purchase from Hon Hai Group various raw materials, ancillary materials and semi-finished components and assembled products under three procurement models:

Model	Terms	Pricing Policy
Model One	Purchase of gold salts from Hon Hai Group at the Group's raw materials	<p>Purchase price is to be set at the price equivalent to the sum of the commodity spot prices and the processing fees. The Group will obtain and compare fee proposals provided by Hon Hai Group and independent third party suppliers on a quarterly basis to the extent practicable.</p> <p>As a risk control measure, the Group will procure gold salts from more than one supplier, but will allocate at least 70% annual purchase from the supplier with the lowest fee quote.</p> <p>As discussed in the Prospectus and the Letter from the Board, the Group procures gold salts from Hon Hai Group in order to take advantage of Hon Hai Group's economics of scale. In particular, gold salts are a hazardous material and generally allowed to be sold only by licensed suppliers.</p>

LETTER FROM ALLIANCE CAPITAL PARTNERS LIMITED
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Model	Terms	Pricing Policy
		<p>We have enquired with the Management and noted that a subsidiary of Hon Hai Group is a licensed supplier with the relevant business license and safety production permit issued by Shenzhen Administration of Work Safety in the PRC and Taiwan respectively.</p> <p>To assess the implementation of Model One, the pricing mechanism under Product Purchase Transaction relating to the procurement of gold salts, we have obtained and reviewed the quarterly summary for the second quarter in 2018, third quarter in 2018, fourth quarter in 2018 and the first quarter in 2019 from the Company setting out the fee quotations, which were determined by the sum of the commodity spot prices and the processing fees, provided by Hon Hai Group and independent third party suppliers. We noted the Company has selected gold salts suppliers with the lowest quote basis. The Management also confirmed that they have complied with the 70% threshold in 2018. Based on the information reviewed as described above, we are of the view that the Group has complied with the pricing mechanism of Model One.</p>
Model Two	Purchase of ancillary raw materials from Hon Hai Group	<p>Brand companies may require the Group to purchase certain ancillary materials from a designated suppliers, for example, Hon Hai Group (the “Designated Supplier Transactions”). In this case, purchase prices are the price agreed between Hon Hai Group and the Group’s customers; in other case where Hon Hai Group is not designated as supplier (the “Non-designated Supplier Transactions”), purchase prices are determined with reference to comparable independent third party prices to the extent that independent third party suppliers are available.</p>

LETTER FROM ALLIANCE CAPITAL PARTNERS LIMITED

Model

Terms

Pricing Policy

In this regard, we have reviewed relevant correspondences between the Company and a brand company. We noted that the brand company requires the Company to purchase certain ancillary materials from their designated supplier, such as Hon Hai Group. Furthermore, as mentioned in the Prospectus and based on discussion with the Management, for procurement of ancillary materials that is not designated by brand companies, it is also likely that the Group will purchase ancillary raw materials from Hon Hai Group due to its competitive prices resulting from economies of scale.

To assess the implementation of Model Two, the pricing mechanism under Product Purchase Transaction relating to the procurement of ancillary raw materials, we have obtained and reviewed 12 and 23 samples of Designated Supplier Transactions and Non-designated Supplier Transactions respectively from the Group covering the period from April 2018 to March 2019. For Designated Supplier Transactions, we noted that the prices were negotiated between Hon Hai Group and the Group's customers. For the Non-designated Supplier Transactions, we noted from the purchase order samples and other corresponding documents that the Group has compared the price quotations from Hon Hai Group with independent third party suppliers. Based on the information reviewed, we are of the view that the Group has complied with the pricing mechanism of Model Two.

LETTER FROM ALLIANCE CAPITAL PARTNERS LIMITED

Model	Terms	Pricing Policy
Model Three	Purchase of semi-finished components and assembled products from Hon Hai Group to whom the Group provides certain raw materials and components for their production of semi-finished components and assembled products	Purchase price are determined based on (a) Hon Hai Group's purchase prices of raw materials supplied by the Group, (b) Hon Hai Group's purchase prices of other raw materials, (c) Hon Hai Group's labour costs and overheads, and (d) handling fees up to 5% of relevant labour cost and overheads.

In order to enhance the Group's production efficiency and manage its production cost, the Group from time to time engages Hon Hai Group for certain labour-intensive production processing of its interconnect solutions and certain other products.

Hon Hai Group has been a long-term supplier of manufacturing services vendor of the Group with the expertise to manage a large workforce. Furthermore, as advised by the Management, given the unique nature of the semi-finished goods and assembled products, there were no third party transactions for comparable products. As such, conducting the Product Purchase Transaction with Hon Hai Group is essential and mutually complementary.

To assess the implementation of Model Three, the pricing mechanism under Product Purchase Transaction relating to the procurement of semi-finished goods and assembled products, we have obtained and reviewed a summary of 8 sample purchase transactions and the underlying documents from the Group covering the period from June 2018 to March 2019, which provides the breakdown of raw material costs, labor costs and overheads and the implied handling fee imposed on the relevant labour cost and overheads. We noted that the handling fee of relevant labour cost and overheads did not exceed 5%. Based on the information reviewed, we are of the view that the Group has complied with the pricing mechanism of Model Three.

In respect of Model Three, the Group proposes a change in pricing policy. For details, please refer to the paragraph headed "Proposed Product Purchase Model Three Pricing Policy Change" below.

LETTER FROM ALLIANCE CAPITAL PARTNERS LIMITED

(b) Framework Sales Agreement

Pursuant to the Framework Sales Agreement, the Group may sell to Hon Hai Group various interconnect solutions and other related products for a term up to 31 December 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 the Group's brand company customers (the "**Designated Product Sales**"), at the price negotiated and determined between the Group's brand company customers and the Group; or
- (2) For other sales to Hon Hai Group where selling prices were not designated by the Group's 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.

For Designated Product Sales, we understand from the Management that it is indeed an industry practice that the brand companies (i.e. the ultimate customers) often require contract manufacturer (i.e. the Group's direct customer) to purchase the relevant parts and components, including the Group's interconnect solutions, from specific approved suppliers like the Group, for purpose of better quality control and overall supply chain Management. In this regard, we have obtained and reviewed 31 sales samples from the Company covering the period from April 2018 to March 2019. Based on the documents and information received, we noted that the brand companies did require Hon Hai Group to source certain parts and components from the Group, and that the selling prices of the Designated Product Sales were negotiated and determined between the Group's brand company customers and the Group. Based on the information received, we are of the view that Group has complied with the pricing mechanism for Designated Product Sales.

For Connected Sales where the prices are determined with reference to the blended profit margins, the Management advised that the Group would regularly calculate the gross margin for Connected Sales and for Third Party Sales, respectively, and monitor that the difference would not exceed 6.5%. We have obtained and reviewed the quarterly gross profit margin analysis table of Product Sales Transaction and the Third Party Sales prepared by the Group, for the second quarter in 2018, third quarter in 2018, fourth quarter in 2018 and the first quarter in 2019, and noted that the differences did not exceed 6.5%. Based on the information received, we are of the view that Group has complied with the pricing mechanism for Connected Sales.

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(c) Framework Sub-contracting Services Agreement

Pursuant to the Framework Sub-contracting Services Agreement, Hon Hai Group may provide the Group with sub-contracting services from time to time for a term of three years commencing on the Listing Date and subject to the terms and conditions therein at sub-contracting fees determined based on relevant (i) labour costs and overheads and (ii) handling fee up to 5% of relevant labor costs and overheads. Where such cost break-down is not readily available, the sub-contracting fees are determined with reference to comparable third party prices.

As part of our assessment, we have obtained and reviewed a summary of 12 sample transactions and the underlying documents from the Group covering the period from April 2018 to March 2019, and we noted that the sub-contracting fees were determined with reference to comparable third party prices. Hence, we are of the view that the Group has complied with the pricing mechanism as set in the Framework Sub-contracting Services Agreement.

5. Proposed Product Purchase Model Three Pricing Policy Change

As discussed under paragraph (3)(a) above, for purchase from Hon Hai Group of various semi-finished components and assembled products at a price to be determined under Model Three, the Group proposed the following change:

Model Three — Purchase price are determined based on:

Existing Product Purchase Model Three Pricing Policy	Proposed Product Purchase Model Three Pricing Policy Change
(a) Hon Hai Group's purchase prices of raw materials supplied by the Group	Hon Hai Group's purchase prices of raw materials supplied by the Group
(b) Hon Hai Group's purchase prices of other raw materials	Hon Hai Group's purchase prices of other raw materials
(c) Hon Hai Group's labour costs and overheads	Hon Hai Group's labour costs and overheads
(d) handling fees up to 5% of relevant labour cost and overheads	handling fees up to 8% of relevant material cost, labour cost and overheads

or determined with reference to comparable third party prices to the extent independent third party suppliers are available.

According to the Management, the Proposed Product Purchase Model Three Pricing Policy Change is required further to the completion of the Group's investment in and acquisition of certain companies and business units in 2018, where the Existing Product Purchase Model Three Pricing Policy may not be able to satisfy the future business dealings between the Group and Hon Hai Group in relation to the procurement of semi-finished goods and assembled products.

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Hon Hai Group has been a long-term supplier of manufacturing services vendor of the Group with the expertise to manage a large workforce. As advised by the Management, given the unique nature of the semi-finished goods and assembled products, there were no third party transactions for comparable products. As such, conducting the Product Purchase Transaction with Hon Hai Group is essential and mutually complementary. The increase in the handling fees from up to 5% to 8% is determined primarily to provide a reasonable profit margin to Hon Hai Group, which is also consistent with the overall profit margin level for the year of 2018 of the specific contracting party within Hon Hai Group for Model Three transactions, being Foxconn Industrial Internet Co., Ltd., a company listed on the Shanghai Stock Exchange. Furthermore, there is production line enhancement in Hon Hai Group in response to the product upgrade. The existing handling fees up to 5% of relevant labour cost and overheads may not be able to provide reasonable profit to Hon Hai Group, taking into account of Hon Hai Group's production line enhancement in response to our Group's product upgrade and increase in production amount arising from recent acquisitions and investments. The Management also expect to achieve a better production efficiency by leveraging on Hon Hai Group's production facilities in Vietnam due to the cost advantage.

We have reviewed the financial statements of Foxconn Industrial Internet Co., Ltd. for the year of 2018 and noted that the gross profit margin was approximately 8.6%. We also noted that the labour cost in Vietnam is much lower than that of the Jiangsu Province, the PRC, where the Company's principal production facilities are located (please refer to section 7 in this letter for a detailed analysis). In particular, we have obtained the scenario analysis from the Management, which illustrated that the overall cost of purchase from Hon Hai Group (i.e. including the handling fee of 8%) would still be lower than the corresponding cost for the Group to manufacture the same product on their own (i.e. without handling fee). It is mainly due to the lower labour cost in Hon Hai Group's production facilities in Vietnam, which is only about half of that in Jiangsu Province, the PRC. We further note the minimum monthly wage in Vietnam in 2019 ranged from US\$126 to US\$180, while that in Jiangsu Province, PRC ranged from approximately US\$226 to US\$282, and the low end of the minimum monthly wage in Vietnam is also roughly about half of that in Jiangsu Province, the PRC. Furthermore, by referencing to comparable third party prices, if available in the future, it is of the view that the Company would be able to better manage the cost of purchase. In this connection, we consider that it is reasonable to change the pricing policy of Model Three to charge 8% of handling fees.

6. Internal control procedures and pricing policies

As disclosed in the Letter from the Board, the Group has adopted the following internal control procedures over the continuing connected transactions of the Group including the Product Purchase Transaction, the Product Sales Transaction and the Sub-contracting Services Transaction:

- Before entering into a transaction under the continuing connected transactions of the Company, the purchase, business and/or other functional departments (as the case may be) of the Group will review and check whether the pricing is fair and reasonable adhering to the pricing policy, terms and details according to the relevant agreements and, in respect of the procurement of ancillary raw materials from Hon Hai Group that is designated by the Group's customers, the Group's purchase prices are the prices agreed between Hon Hai Group and the Group's customers. 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, operation and/or other functional departments (as the case may be) on a quarterly basis.

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- The business management department of the Company is primarily responsible to review and monitor, on a monthly basis and from time to time, 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. Each quarter, the business operation management department will also conduct a review on a random sampling basis. The operation management department of the Company will consult with the Group's internal audit function and external lawyer 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.

In respect of implementation of the aforementioned internal control procedures, we have discussed with the Management and reviewed (i) the Group's internal control procedure in respect of the Transactions and (ii) its consolidated report on continuing connected transactions for the year ended 31 December 2018 from various business units to the Board. Based on the above, and given that the internal control procedure on the Transactions have been in place, and that auditors have issued unqualified letter relating to the Group's continuing connected transactions including those related to the Transactions, we are of the view that the Group's execution and implementation of the Group's internal control procedures has been effective.

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7. Basis for determining the Proposed 2019 Annual Caps

The table below sets out (a) the historical actual transaction amounts of Transactions, (b) the Existing 2019 Annual Caps, and (c) the Proposed 2019 Annual Caps:

(US\$ million)	Actual transaction amount				Existing Annual Caps	Proposed Annual Caps
	For the year ended 31 December			For the three months ended 31 March	For the year ending 31 December	
	2016	2017	2018	2019	2019	2019
Product Purchase Transaction	398.5	437.9	436.3	85.6	620.3	680.0
Product Sales Transaction	661.1	844.4	931.4	178.8	1,309.1	1,465.0
Sub-contracting Services Transaction	75.7	72.9	106.6	27.1	106.7	240.0

(i) The Proposed 2019 Purchase Annual Cap and (ii) the Proposed 2019 Sales Annual Cap

Pursuant to the Letter to the Board, the Management consider it in its best interests to generate more income and save cost by carrying out the Product Purchase Transaction and the Product Sales Transaction in response to the latest development of the Group's business plan, provided that the Group purchases from and sales to Hon Hai Group at prices pursuant to the pricing policies set forth in the Framework Purchase Agreement and the Framework Sales Agreement. The Management anticipated that the Existing 2019 Product Purchase Annual Cap and the Existing 2019 Product Sales Annual Cap may not be sufficient due to the investments and acquisitions as discussed under paragraph 1 above and the changes in production strategy as a result of the production costs control measures in 2019 adopted by the Group and Hon Hai Group, whereby (1) the Group further outsources assembly processes to Hon Hai Group; and (2) Hon Hai Group utilises the Group's surface processing capacities.

Accordingly, the Proposed 2019 Product Purchase Annual Cap and the Proposed 2019 Product Sales Annual Caps are proposed with reference to projections taking into account the above with reference to the following major factors:

- (1) the latest available actual amounts of the transactions under the Product Purchase Transaction and the Product Sales Transaction during the period from 1 January 2019 to 31 March 2019 (both dates inclusive);
- (2) the historical growth and budget of the Product Purchase Transaction and the Product Sales Transaction;
- (3) the expected growth of the Group's businesses in 2019;
- (4) the increase in the amount of continuing connected transactions due to the investment or acquisition in certain companies or business units in 2018; and
- (5) the changes in production strategy as a result of the Group's production cost control measures in 2019.

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The actual amounts of Product Purchase Transaction and Product Sales Transaction with Hon Hai Group for the three months ended 31 March 2019 was approximately US\$85.6 million and US\$178.8 million respectively, representing approximately 13.8% and 13.7% of the respective Existing 2019 Annual Caps for the year ending 31 December 2019, and approximately 12.6% and 12.2% of the Proposed 2019 Product Purchase Annual Caps and the Proposed 2019 Product Sales Annual Caps, respectively. As discussed with the Management, we understand that such lower transaction amounts during the period was mainly due to seasonality effect. The Management expects that the transaction amounts will generally be higher in the second to fourth quarter of the year. We have obtained and reviewed the purchase forecast by month for the period from April 2019 to December 2019 and the sales forecast by month for the period from April 2019 to December 2019 prepared by the Management, and noted that the forecasted amount of Product Purchase Transaction and Product Sales Transaction for the second half year in 2019 are over US\$300 million and US\$650 million, representing an increase of over 30% when compared with the actual amount recorded in comparative second half year in 2018 for the Product Sales Transaction and the Product Purchase Transaction. As advised by the Management, a significant increase in the transaction amount is forecasted mainly due to (i) the business strategies of the Group's major customers which are computer and consumer electronics and mobile and wireless brand companies that usually release their new products in the second half of each year; and (ii) certain updated interconnect solution components such as lightning cable with a higher unit price (and also higher cost) will be adopted and in place of the current types that may result in greater net purchase and sales amount.

In addition, based on our discussion with the Management, following the completion of the investment or acquisition in certain companies or business units, including but not limited to the formation of joint venture with Sharp Corporation and the acquisition of Belkin International, Inc., their purchase and sales of various raw materials, ancillary materials and semi-finished components and assembled products with Hon Hai Group would be treated as part of the Group's purchase and sales with Hong Hai Group. According to the information provided by the Company, these newly invested or acquired companies had a purchase and sales amount with Hon Hai Group of approximately US\$64.8 million and US\$46.4 million respectively for the year ended 31 December 2017, and US\$54.6 million and US\$37.6 million respectively for the year ended 31 December 2018. In this sense, an increase in the annual caps is essential as the Existing 2019 Product Purchase Annual Cap and the Existing 2019 Product Sales Annual Cap do not take into account of the purchase and sales of these new group members.

We are also advised by the Management that the Group will further outsource the non-core labour intensive assembly process to certain production facilities of Hon Hai Group located in Vietnam in order to better control the production cost. The Group is expected to, as a result of the increase in Model Three Product Purchase Transaction, sell more interconnect solutions and other related products to Hon Hai Group for its assembling and production, and then purchase more semi-finished components and assembled products from Hon Hai Group, and thus increasing the amount of the Product Purchase Transaction and the Product Sales Transaction. Based on our research on the direct labour cost in the PRC and Vietnam, we noted that the monthly minimum wage in Vietnam in 2019 ranged from US\$126 to US\$180, which is much lower than the monthly minimum wage in Jiangsu Province, the PRC, where the Company's principal production facilities are located, ranging from approximately US\$226 to US\$282. Therefore, we concur with the view of the Management that further outsourcing the non-core labour intensive assembly process to the production facilities of Hon Hai Group in Vietnam will allow the Group to enhance profitability.

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Having considered that (i) a significant increase in Product Purchase Transaction and Product Sales Transaction is anticipated in the second half of 2019 as the business strategies of the Group's major customers which are computer and consumer electronics and mobile and wireless brand companies that usually release their new products in the second half of each year, and certain updated interconnect solution components such as lightning cable with a higher per unit price (and also higher cost) will be adopted and in place of the current types that may result in greater net purchase and sales amount; (ii) recent investments and acquisitions leading to an increase in the amount of Product Purchase Transaction and Product Sales Transaction; and (iii) further outsourcing the assembly process to the production facilities of Hon Hai Group in Vietnam would increase the transaction amount with Hon Hai Group, we are of the view that the Proposed 2019 Purchase Annual Cap and the Proposed 2019 Sales Annual Cap are determined by the Management after due and careful consideration, and are fair and reasonable so far as the Company and the Shareholders are concerned.

(iii) the Proposed 2019 Sub-contracting Service Annual Cap

Pursuant to the Framework Sub-contracting Services Agreement, Hon Hai Group may provide the Group at sub-contracting fees determined based on relevant

- (i) labour costs and overheads; and
- (ii) handling fee up to 5% of relevant labour costs and overheads.

Where such cost break-down is not readily available, the sub-contracting fees are determined with reference to comparable third party prices.

We note the Proposed 2019 Sub-contracting Service Annual Cap comprises two elements: (1) organic growth of sub-contracting service of approximately US\$157.7 million (2) change of business model of approximately US\$82.3 million.

It has been the Group's policy to further outsource non-core, labour intensive assembly processes to certain production facilities of Hon Hai Group located in Vietnam in order to control production costs. As discussed above in this section, we concur with the view of the Management that it is in favour of the Group to further outsource the non-core labour intensive assembly process to the production facilities of Hon Hai Group in Vietnam due to the cost advantage, and such further outsourcing would increase the transaction amount (not only the Product Purchase Transactions and Product Sales Transaction, but also the Sub-contracting Services Transaction) with Hon Hai Group. The relevant proposed annual cap for Sub-contracting Services Transaction of approximately US\$157.7 million represents a 47.9% increase as compared to the historical transaction amount for Sub-contracting Services Transaction for the year ended 31 December 2018, which is similar to the historical growth of approximately 46.2% recorded from the year ended 31 December 2017 to the year ended 31 December 2018.

There has also been discussions between the Group and Hon Hai Group that to change part of the business mode of such outsourcing from product sales and purchase to provision of sub-contracting services, pursuant to which Hon Hai Group will provide sub-contracting services for the Group's assembly processes, resulting in an increasing demand for the Sub-contracting Services Transaction. We have obtained and reviewed a summary of the effect of aforesaid change of business model prepared by the Management based on the customers' orders in advanced negotiation stage, and noted that the Group will require additional Sub-contracting Service Transaction of approximately US\$82.3 million in the year ending 31 December 2019. Given administrative procedures and cost would be saved, we consider it justifiable to migrate

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from Product Purchase Transaction and Product Sales Transaction, to Sub-contracting Services Transaction, when both the Group and Hon Hai Group are ready to do so. Since time is required to implement the new business modes, we consider it justifiable to presume both business modes will be in parallel run in contemplation of the migration during the year ending 31 December 2019.

Taking into account of the above and considering the need of buffer, we concur with the Management's view that the Proposed 2019 Sub-contracting Services Annual Cap is reasonable.

RECOMMENDATIONS

Having considered the principal factors and reasons above, we are of the opinion that the terms of the Proposed 2019 Purchase Annual Cap, the Proposed 2019 Sales Annual Cap, the Proposed 2019 Sub-contracting Services Annual Cap, and the Proposed Product Purchase Model Three Pricing Policy Change are on normal commercial terms and in the ordinary and usual course of business of the Group, and in the interest of the Group and the Shareholders as a whole so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution approving the revision of annual caps and the change in pricing policy to be proposed at the EGM.

Yours faithfully,
For and on behalf of
Alliance Capital Partners Limited
Alyssa Ng
Managing Director

Ms. Alyssa Ng is licensed person under the SFO to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities and has more than 10 years' experience in participation and advising in various initial public offerings and transactions involving companies listed in Hong Kong, including but not limited to the provision of independent financial advisory services regarding connected transactions.

APPENDIX — GENERAL INFORMATION

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) Interests of Directors and chief executive of the Company

As of the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (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 they were taken or deemed to have under the provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which had otherwise been notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”), were as follows:

(i) Long positions in the Shares of the Company as of the Latest Practicable Date

Name of Director	Capacity and nature of interest	Number of Shares held	Approximate percentage of shareholding
LU Sung-Ching ¹	Beneficial owner	123,720,000	1.83%
LU Pochin Christopher	Beneficial owner	12,512,000	0.19%
PIPKIN Chester John	Beneficial owner	1,790,000	0.03%

Note:

1. *Mr. LU is also interested in 321,440,000 Shares under the Share Grant Scheme.*

(ii) Long position in the share capital or debentures of the associated corporations of the Company as of the Latest practicable Date

Name of Director	Name of associated corporation of the Company	Capacity and nature of interest	Number of shares in the corporation	Approximate percentage of shareholding
PIPKIN Chester John	FIT CHB Holdco, Inc.	Beneficial owner	450,000	9.57%

APPENDIX — GENERAL INFORMATION

(iii) Long position in share options granted by the Company

The Share Option Scheme was conditionally approved and adopted by the Shareholders on December 19, 2017. The terms of the Share Option Scheme are in accordance with the provisions of Chapter 17 of the Listing Rules. The purpose of the Share Option Scheme is to enable the Group to offer valuable incentive to attract and retain quality personnel to work towards enhancing the value and attaining the long-term objectives of the Group. As of the Latest Practicable Date, the long position of the Directors in the share options granted by the Company was as follows:

Name of Director	As of January 1, 2018	Granted during the year 2018 and up to the Latest practicable Date	Exercised during the year 2018 and up to the Latest practicable Date	Lapsed during the year 2018 and up to the Latest practicable Date	Cancelled during the year 2018 and up to the Latest practicable Date	As of the Latest Practicable Date	Date of grant of share options	Exercise period of share options (both dates inclusive)	Closing price of the Shares	Exercise price of share options
									immediately before the date on which the share options were granted	
PIPKIN Chester John	—	200,000	—	—	—	200,000	December 28, 2018	December 28, 2019 to December 28, 2022	3.35	3.422

Save as disclosed above, as of the Latest Practicable Date, none of the Directors or chief executives of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any associated corporation (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 they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which had otherwise been notified to the Company and the Stock Exchange pursuant to the Model Code.

(b) Interests of substantial Shareholders

As of the Latest Practicable Date, according to the register kept by the Company pursuant to Section 336 of the SFO and, so far as was known to the Directors or chief executive of the Company, the persons or entities, other than a Director or chief executive of the Company, who had an interest or a short position in the shares or the underlying shares of the Company which would fall to be

APPENDIX — GENERAL INFORMATION

disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or any other company which is a subsidiary of the Company, or in any options in respect of such share capital were as follows:

Long positions in the Shares as of the Latest Practicable Date

Name of Shareholders	Capacity and nature of interest	Number of ordinary shares held	Approximate percentage of shareholding
Hon Hai	Interest in controlled corporation ¹	5,179,557,888	76.48%
Foxconn Far East Cayman	Interest in controlled corporation ²	5,179,557,888	76.48%
Foxconn Far East Hong Kong	Beneficial owner	5,179,557,888	76.48%

Notes:

1. *Hon Hai holds the entire issued share capital of Foxconn Far East Cayman, which in turn holds the entire issued share capital of Foxconn Far East Hong Kong.*
2. *Foxconn Far East Cayman holds the entire issued share capital of Foxconn Far East Hong Kong, which in turn holds 5,179,557,888 Shares of the Company.*

Save as disclosed above, as of 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.

Save as disclosed above, as of the Latest Practicable Date, none of the director of the Company is a director or employee in Hon Hai, Foxconn Far East Cayman or Foxconn Far East Hong Kong which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

(c) **Directors' or chief executive's rights to acquire interests or short positions in Shares and debentures**

The Share Grant Scheme was approved and adopted by the Board on January 5, 2015, and the Board further adopted the rules and interpretations thereof on November 4, 2016.

APPENDIX — GENERAL INFORMATION

Details of the interests of the Directors in the Share Grant are set out below.

Name of Director	Date of grant	Number of Share Grant
LU Sung-Ching	January 5, 2015	321,440,000

Save as disclosed above, as of the Latest Practicable Date, none of the Directors or chief executive of the Company or their respective spouse or minor children were granted any rights to acquire benefits by means of acquisition of the Shares in or debentures of the Company or any other body corporate; nor was the Company, its subsidiaries or holding company or any of its subsidiaries a party to any arrangement to enable the Directors or chief executive of the Company to acquire such rights in the Company or any other body corporate.

3. DISCLOSURE OF OTHER INTERESTS

(a) Interests in contract or arrangement

As of the Latest Practicable Date, none of the Directors is materially interested in any contract or arrangement which is significant to the business of the Group.

(b) Interests in assets

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

(c) Interests in competing business

As of 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 OF EXPERT

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

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

5. CONSENT

Alliance Capital Partners Limited 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 of the Latest Practicable Date, save as disclosed in the annual results announcement of the Company for the year ended December 31, 2018 published on March 26, 2019, the Directors are not aware of any material adverse change in the financial or trading position of the Group since December 31, 2018, 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 of the Latest Practicable Date, Alliance Capital Partners Limited 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 of the Latest Practicable Date, none of the Directors or Alliance Capital Partners Limited had any interest, either directly or indirectly, in any assets which have been, since December 31, 2018 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 Conyers 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 Framework Purchase Agreement, the Framework Sales Agreement and the Framework Sub-contracting Services Agreement are available for inspection during normal business hours at 31/F, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong from the date of this circular to the date of the EGM (both dates inclusive) and also at the EGM.

NOTICE OF EGM



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)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of the shareholders of FIT Hon Teng Limited (the “**Company**”) will be held at 66-1, Chungshan Road, Tucheng District, New Taipei City 23680, Taiwan on Friday, June 21, 2019 at 3:30 p.m., for the following purposes:

To consider and, if thought fit, passing (with or without modifications) the following ordinary resolutions:

“THAT

- (a) The proposed purchase annual cap for the year ending December 31, 2019 as set out in the circular of the Company dated June 4, 2019 in respect of the transactions contemplated under the framework purchase agreement entered into between the Company and Hon Hai Precision Industry Co. Ltd. (“**Hon Hai**”) on November 9, 2016 (as amended by the supplemental agreement dated June 26, 2017) (the “**Product Purchase Transaction**”) be and are hereby approved, confirmed and ratified in all respects;
- (b) The proposed sales annual cap for the year ending December 31, 2019 as set out in the circular of the Company dated June 4, 2019 in respect of the transactions contemplated under the framework sales agreement entered into between the Company and Hon Hai on November 9, 2016 (the “**Product Sales Transaction**”) be and are hereby approved, confirmed and ratified in all respects;
- (c) The proposed sub-contracting services annual cap for the year ending December 31, 2019 as set out in the circular of the Company dated June 4, 2019 in respect of the transactions contemplated under the framework sub-contracting services agreement entered into between the Company and Hon Hai on November 9, 2016 (the “**Sub-contracting Services Transaction**”) be and are hereby approved, confirmed and ratified in all respects;
- (d) The proposed change in pricing policy of model three in respect of the Product Purchase Transaction be and are hereby approved, confirmed and ratified in all respects; and
- (e) 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 authorized 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

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to any of the matters contemplated under the Product Purchase Transaction, the Product Sales Transaction and the Sub-contracting Services Transaction for a term up to December 31, 2019 and/ or the said change in pricing policy.”

By Order of the Board
FIT Hon Teng Limited*
LU Sung-Ching
Chairman of the Board

Hong Kong, June 4, 2019

Registered Office:
Cricket Square
Hutchins Drive,
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Headquarters in Taiwan:
66-1, Chungshan Road
Tucheng District
New Taipei City 23680
Taiwan

Principal Place of Business in Hong Kong:
31/F, Tower Two
Times Square
1 Matheson Street
Causeway Bay
Hong Kong

Notes:

- (a) As set out in the circular of the Company dated June 4, 2019, the register of members of the Company will be closed from Tuesday, June 18, 2019 to Friday, June 21, 2019, both dates inclusive, during which period no transfer of 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 Shops 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 Monday, June 17, 2019.
- (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 (i.e. not later than 3:30 p.m. on June 19, 2019) 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 Precision Industry Co., Ltd., the controlling shareholder of the Company, and its associates (as defined in the Listing Rules) are required to abstain from voting on the ordinary resolution numbered.
- (e) The ordinary resolutions set out above will be determined by way of poll.

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