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# **Foxconn International Holdings Limited**

## **富士康國際控股有限公司\***

*(Incorporated in the Cayman Islands with limited liability)*  
(Stock Code: 2038)

### **CONTINUING CONNECTED TRANSACTION**

With reference to the Announcement, the Group has revised the annual cap for the year ended 31 December 2005 and has set annual caps for the two years ending 31 December 2007 in respect of the Sub-contracting Income Transaction between the Group and the Hon Hai Group.

The actual unaudited amount of the Sub-contracting Income Transaction in 2006 has exceeded the present annual cap for the Sub-contracting Income Transaction for the year ending 31 December 2006. The Company proposes to further revise the annual cap for the Sub-contracting Income Transaction for the year ending 31 December 2006 pursuant to rule 14A.36 of the Listing Rules. The existing annual cap for the year ending 31 December 2007 remains unchanged.

Based on the new annual cap for the year ending 31 December 2006 in respect of the Sub-contracting Income Transaction, each of the relevant percentage ratios (other than the profits ratio) is less than 2.5%. In accordance with Rule 14A.34 of the Listing Rules, the revision of the annual cap for the Sub-contracting Income Transaction is only subject to the reporting and announcement requirements of the Listing Rules.

### **BACKGROUND**

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

As stated in the Announcement, the Company has revised the annual cap for the year ended 31 December 2005 and has set annual caps for the two years ending 31 December 2007 in respect of the Sub-contracting Income Transaction between the Group and the Hon Hai Group. The Hon Hai Group is the leading global manufacturing service provider in the 3C industries. Hon Hai is a substantial shareholder of the Company holding approximately 72.76% of the issued share capital of the Company.

The actual unaudited amount of the Sub-contracting Income Transaction in 2006 has exceeded the existing cap for the Sub-contracting Income Transaction for the year ending 31 December 2006. The Company therefore proposes to revise the annual cap in respect of the Sub-contracting Income Transaction for the year ending 31 December 2006 pursuant to rule 14A.36 of the Listing Rules.

### **PRINCIPAL TERMS OF THE SUB-CONTRACTING INCOME TRANSACTION**

The Company entered into the Framework Sub-contracting (income) Agreement with Hon Hai pursuant to which the Group may from time to time provide sub-contracting services to the Hon Hai Group for a term up to 31 December 2007 which should be priced:

1. with reference to the average market price;
2. where there is no market price, on the principle of "cost-plus" with the mark-up to be agreed between the parties based upon reasonable commercial principles; and
3. where none of the above pricing bases is appropriate, at a price to be agreed between the parties based upon reasonable commercial principles.

The fee charged by the Group to the Hon Hai Group has been determined based on the relevant cost of the Group plus a profit margin determined based on arm's length negotiations between the Company and Hon Hai.

The Company considers that the Sub-contracting Income Transaction has been and will continue to be carried out in the ordinary and usual course of business of the Group and on normal commercial terms from the perspective of the Company and the terms of the transaction are fair and reasonable and in the interests of the shareholders of the Company as a whole.

### **REASONS FOR THE SUB-CONTRACTING INCOME TRANSACTION**

The Company considers that it is in its best interests to generate more income by carrying out the Sub-contracting Income Transaction as long as the services are provided at prices determined under the Framework Sub-contracting (income) Agreement which is on normal commercial terms.

### **HISTORICAL VALUE AND ANNUAL CAPS**

The table below sets out (1) the value of the Sub-contracting Income Transaction for the year ended 31 December 2005; and (2) the annual caps of such transaction for the year ended 31 December 2005 and the years ending 31 December 2006 and 2007.

	<b>Audited amount for the year ended 31 December (in US\$'000)</b>	<b>Cap for the year ended 31 December 2005</b>	<b>Original cap for the year ending 31 December 2005</b>	<b>New cap for the year ending 31 December 2006</b>	<b>Cap for the year ending 31 December 2007</b>
The Sub-contracting Income Transaction	3,228	5,500	8,300	76,100	12,400

*Note:* The existing annual cap for the year ending 31 December 2007 should remain unchanged.

## **NEW ANNUAL CAP**

The Hon Hai Group increases sub-contracting services orders to the Group under the Framework Sub-contracting (income) Agreement amounting to an aggregate of approximately US\$50 million for November and December 2006 which were not taken into account in the determination of the original annual cap of the Sub-contracting Income Transaction for the year ending 31 December 2006. The Company considers that it is in its best interests to generate more income by providing such sub-contracting services to the Hon Hai Group. As such, the original cap for the Sub-contracting Income Transaction for the year ending 31 December 2006 is not sufficient and the actual unaudited amount of the Sub-contracting Income Transaction from 1 January 2006 to 22 November 2006 (being the latest practicable date for this purposes) is approximately US\$28 million which has exceeded the original annual cap for the Sub-contracting Income Transaction for the year ending 31 December 2006. The Company proposes to revise the annual cap for the Sub-contracting Income Transaction for the year ending 31 December 2006. The Company does not propose to change the cap for the year ending 31 December 2007 as there is presently no long-term arrangement in respect of the additional demand for the Sub-contracting Income Transaction.

The new annual cap for the year ending 31 December 2006 was determined with reference to projection of the Company which in turn was prepared by the Company mainly with reference to the following major factors:

- the orders that have been placed and the indication to place orders of the sub-contracting services that has been provided to the Group by the Hon Hai Group for November and December 2006;
- the recent level of the Sub-contracting Income Transaction in 2006; and
- a buffer of 30% to cater for possible additional demand from the Hon Hai Group.

The Directors consider that the new annual cap for the Sub-contracting Income Transaction is fair and reasonable.

## **LISTING RULES REQUIREMENTS**

Based on the new annual cap for the year ending 31 December 2006 in respect of the Sub-contracting Income Transaction, each of the relevant percentage ratios (other than the profits ratio) is less than 2.5%. In accordance with Rule 14A.34 of the Listing Rules, the revision of the 2006 annual cap for the Sub-contracting Income Transaction is only subject to the reporting and announcement requirements set out in rules 14A.45 to 14A.47 of the Listing Rules.

## **DEFINITIONS**

“Announcement”	the announcement of the Company dated 12 January 2006
“associate(s)”	having the meaning as defined in the Listing Rules
“Company”	Foxconn International Holdings Limited, a limited liability company incorporated in the Cayman Islands, the shares of which are listed on the Stock Exchange
“Directors”	the directors of the Company

“Framework Sub-contracting (income) Agreement”	the framework sub-contracting (income) agreement entered into between the Company and Hon Hai on 18 January 2005 (as extended and amended by a supplemental agreement entered into between the same parties on 12 January 2006 as stated in the Announcement) pursuant to which the Group may from time to time provide sub-contracting services to the Hon Hai Group for a term up to 31 December 2007
“Group”	the Company and its subsidiaries
“Hon Hai”	鴻海精密工業股份有限公司 (Hon Hai Precision Industry Company Limited), the ultimate controlling shareholder of the Company
“Hon Hai Group”	Hon Hai, its subsidiaries and associates
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“percentage ratios”	the percentage ratios calculated based on the requirements under Rule 14.07 of the Listing Rules
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Sub-contracting Income Transaction”	sub-contracting services provided by the Group to Hon Hai Group contemplated under the Framework Sub-contracting (income) Agreement
“US\$”	United States dollars, the lawful currency of the United States of America
“3C”	computer, communication and consumer electronics

*As at the date of this announcement, the executive Directors are Messrs. Chin Wai Leung, Samuel and Dai Feng Shuh, the non-executive Directors are Messrs. Chang Ban Ja, Jimmy, Lee Jin Ming and Lu Fang Ming and Miss Gou Hsiao Ling and the independent non-executive Directors are Messrs. Lau Siu Ki, Edward Fredrick Pensel and Mao Yu Lang.*

By Order of the Board  
**Chin Wai Leung, Samuel**  
*Chairman and Chief Executive Officer*

Hong Kong, 28 November 2006

\* *for identification purpose only*

Please also refer to the published version of this announcement in The Standard.