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# **Foxconn International Holdings Limited**

*(Incorporated in the Cayman Islands with limited liability)*

*(Stock Code: 2038)*

## **CONTINUING CONNECTED TRANSACTIONS**

As disclosed in the Prospectus, the Company has obtained the Waivers from the Stock Exchange from strict compliance with the announcement and/or independent shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of a number of non-exempt continuing connected transactions between the Company and the Hon Hai Group. Due to the rapid growth in the Group's business, the Company considers that some of the annual cap amounts under the Waivers are no longer sufficient.

The framework agreements in respect of all the continuing connected transactions under the Waivers have been or will be (where applicable) extended to 31 December 2007.

Given the above, the Company has set or revised, where applicable, the annual caps for the year ended 31 December 2005 and the two years ending 31 December 2006 and 2007 in respect of all the continuing connected transactions under the Waivers.

Based on the respective maximum revised annual caps for the year ended 31 December 2005 and the two years ending 31 December 2006 and 2007 in respect of each of the Continuing Connected Transactions, (i) the Group 1 Transactions constitute non-exempt continuing connected transactions for the Company and are subject to the reporting, announcement and independent shareholders' approval requirements of the Listing Rules and (ii) the Group 2 Transactions, each of the relevant percentage ratios (other than the profits ratio) is less than 2.5%, are only subject to the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules.

Due to the convergence trend in the 3C industry and because more members of the Hon Hai Group have become Approved Vendors, the Purchase Supplemental Agreement and the Product Sales Supplemental Agreement are to be entered into to, among other things, amend and expand the coverage of possible purchases and sales of products by the Group from and to all members of the Hon Hai Group. The Group 1 Transactions, the Supplemental Agreements, and the proposed annual caps in respect of each of the Group 1 Transactions for the year ended 31 December 2005 and the two years ending 31 December 2006 and 2007 are subject to approval by the independent shareholders of the Company.

A circular will be despatched to the shareholders of the Company setting out, among other things, details of the Group 1 Transactions, the Supplemental Agreements, the proposed annual caps in respect of the Group 1 Transactions for the year ended 31 December 2005 and the two years ending 31 December 2006 and 2007 and the letters from the independent board committee and First Shanghai Capital Limited, being the independent financial adviser, in this regard.

The Stock Exchange has expressed and the Company acknowledges that the actual values of certain Continuing Connected Transactions for the six months ended 30 June 2005 exceeding the applicable cap amounts under the Waivers constitutes a breach of the Listing Rules. The Stock Exchange has also expressed that it reserves the rights to take disciplinary actions against the Company and the Directors in respect of the above breach. The Company is in the process of reviewing its internal control procedures in respect of the monitoring of continuing connected transactions with a view to ensuring timely compliance with the relevant requirements under the Listing Rules in future.

## **BACKGROUND**

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

Dealings in the Company's shares on the Main Board of the Stock Exchange commenced on 3 February 2005. As disclosed in the Prospectus, the Company has obtained the Waivers from the Stock Exchange from strict compliance with the announcement and/or independent shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of a number of non-exempt continuing connected transactions between the Company and the Hon Hai Group. The Hon Hai Group is a global manufacturing service provider in the 3C industry. Hon Hai is a substantial shareholder of the Company holding approximately 73.02% of the issued share capital of the Company and, thus, is a connected person of the Company. Pursuant to the Waivers, the maximum aggregate annual value for the non-exempt continuing connected transactions of the Company shall not exceed the applicable annual caps (including caps for the two years ended 31 December 2004 and 2005 and the year ending 31 December 2006) as set out in the Prospectus.

Due to the rapid growth in the Group's business, the Company considers that the caps under the Waivers in respect of certain Continuing Connected Transactions are no longer sufficient. The actual values of certain of the Continuing Connected Transactions have exceeded the relevant annual caps under the Waivers.

The Company proposes to extend the term of the Group 1 Transactions and has extended the term of all the Group 2 Transactions from 31 December 2006 to 31 December 2007. The Company also proposes to set, or revise, where applicable, the annual caps for the year ended 31 December 2005 and the two years ending 31 December 2006 and 2007 in respect of each of the Group 1 Transactions. The Company has set, or revised, where applicable, the annual caps for the year ended 31 December 2005 and the two years ending 31 December 2006 and 2007 in respect of each of the Group 2 Transactions.

The Company (including the independent non-executive Directors in respect of the Group 2 Transactions) considers that the Continuing Connected Transactions have been carried out 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 transactions (as summarized below) are fair and reasonable and in the interests of the shareholders of the Company as a whole.

## **PRINCIPAL TERMS OF THE TRANSACTIONS**

### **The Group 1 Transactions – subject to independent shareholders' approval**

#### ***The Purchase Transaction***

The Group purchases a significant majority of raw materials and components from the Approved Vendors, including various members of the Hon Hai Group.

Prices of purchases of key raw materials and components from the Approved Vendors are typically pre-agreed between the Group's customers and the Approved Vendors independently. The Company believes that this approved vendor system helps ensure that the terms of the purchases under the Purchase Transaction are not unfairly beneficial to the suppliers which are connected persons of the Company.

On 19 January 2005, the Company, Hon Hai, Innolux and Foxconn Technology entered into a framework materials and components supply agreement with a view to setting out the principal terms of the Purchase Transaction. Innolux is principally engaged in the manufacture and sale of liquid crystal displays and related products. Foxconn Technology is principally engaged in the manufacture and sale of various thermal and light metal parts. The existing terms of the framework materials and components supply agreement only cover purchases from Hon Hai, its subsidiaries and two associates of Hon Hai, Innolux and Foxconn Technology, but not other associates of Hon Hai. The Company believes that due to the convergence trend of the 3C industry, the Group has been purchasing materials from another associate of Hon Hai and it is possible that the Group may require more materials and components from other members of the Hon Hai Group as the Company believes that Hon Hai and other affiliated companies of Hon Hai are key players in the 3C manufacturing service industry.

Accordingly, subject to independent shareholders' approval, the Company, Hon Hai, Innolux and Foxconn Technology propose to enter into the Purchase Supplemental Agreement to amend and expand the coverage of the relevant framework agreement to the entire Hon Hai Group. Pursuant to the framework materials and components supply agreement, purchases of materials and components by the Group should be priced:

1. in respect of purchases from an Approved Vendor, at the prices agreed between the supplier and the Company's customers; or
2. at a price determined by reference to the average market price which shall be agreed between the parties following the provision of a price quoted by the relevant supplier to the Company and the Company comparing such quote with prices available on the market from third parties.

### ***The Product Sales Transaction***

As stated in the Prospectus, the Group has from time to time sold products to certain members of the Hon Hai Group.

The Company entered into a framework product sales agreement with Hon Hai and Innolux on 18 January 2005 pursuant to which the Company agreed to sell or procure its subsidiaries to sell to Hon Hai and its subsidiaries and Innolux such parts or products manufactured or owned by the Group with reference to the relevant average market prices. The Company and Hon Hai believe that due to the convergence trend of the 3C industry, the Group has sold products to another associate of Hon Hai from time to time and may enter into more transactions with other members of the Hon Hai Group. In view of this, the Company, Innolux and Hon Hai propose to enter into the Product Sales Supplemental Agreement to amend and expand the coverage of the relevant framework agreement to the entire Hon Hai Group. The Product Sales Supplemental Agreement will also clarify the terms in relation to the pricing of the products sold by the Group, pursuant to which the sales of products by the Group should be priced at:

1. with reference to the average market price;
2. where there is no market price, on 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 Group 2 Transactions – exempted from independent shareholders' approval***

#### ***The General Services***

As set out in the Prospectus, the Group's production facilities in Shenzhen, the PRC are located in an industrial park owned by Hon Hai. Within the industrial park, Hon Hai manages to provide a number of services to all the tenants, including the Group, which are necessary for the tenants to carry out their operations in the industrial park. Such services include provision of water, electricity and gas to certain staff quarters, property management services of the common areas, maintenance and improvement of certain technology services, technical support services such as product testing and inspection, human resources services such as staff recruitment and training and other general services such as catering and medical services.

The Company entered into a general services agreement with Hon Hai on 18 January 2005 with a view to setting out the principal terms of the General Services at prices to be determined:

1. where there is a price determined by the state of the PRC, at such state determined price;
2. where there is no state determined price, at the market price;
3. where there is no state determined price or market price, on principle of "cost plus"; and
4. where none of the above pricing bases is appropriate, at a price to be agreed between the relevant parties.

At present, Hon Hai charges the Group the cost of the General Services on certain pre-agreed bases. The Company considers that the historic and present allocation bases and ratios are fair and reasonable. The Company will endeavour to agree with Hon Hai any future allocation bases and ratios on a fair and equitable basis.

#### ***The R&D Transaction***

PCE Industry is a wholly-owned research, development and manufacturing subsidiary of Hon Hai and, thus, is a connected person of the Company. As set out in the Prospectus, PCE Industry has from time to time been providing in-mold labeling research and development services to Sutech Industry, a wholly-owned subsidiary of the Company. For administrative purposes, such fees were charged to another wholly-owned subsidiary of the Company, Sutech Trading Ltd.

On 19 January 2005, Sutech Industry and PCE Industry entered into a research and development services agreement to set out the principal terms of the R&D Transaction.

Due to the convergence trend of the 3C industry, the Company believes that it is possible that the Group may require or it is in its best interests to receive other research and development support from other members of the Hon Hai Group in the future depending on the outcome of the convergence trend. Accordingly, the Company on 12 January 2006 entered into a supplemental agreement to the framework research and development agreement to expand the coverage of the relevant framework agreement to the entire Hon Hai Group whilst the research and development services should be charged at the actual cost of personnel, a proportionate share of the depreciation charged by Hon Hai, or its associates, as the case may be, as recorded in its accounts in respect of the associated equipment and facilities, plus expenses.

#### ***The Sub-contracting Income Transaction and the Sub-contracting Expense Transaction***

As set out in the Prospectus, the Company has been providing the Sub-contracting Income Transaction to the Hon Hai Group, such as molding, metal stamping for desktop computers and other services. Also, the Group has sub-contracted certain services, mainly comprising molding and electroplating, to Hon Hai and its other subsidiaries from time to time.

On 18 January 2005, the Company and Hon Hai entered into a framework sub-contracting (income) agreement and a sub-contracting service (expense) agreement pursuant to which the Company agreed to sub-contract, and to procure its subsidiaries to sub-contract, to Hon Hai or its subsidiaries from time to time services that form part of the Company's handset manufacturing services business and to provide sub-contracting services to Hon Hai. On 12 January 2006, the Company entered into supplemental agreements with Hon Hai to expand the coverage of the relevant framework agreements to the entire Hon Hai Group in view of the convergence trend of the 3C industry.

In respect of the Sub-contracting Income Transaction, the Company understands from Hon Hai that Hon Hai has an approved vendor list system which imposes limitations on the selection of service providers. The Company understands from Hon Hai that, as a result of the above, some of the sub-contracting services provided by the Group to Hon Hai may not have comparables available in the market. Accordingly, the fee charged by the Group to Hon Hai under the Sub-contracting Income Transaction was 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. Pursuant to the supplemental agreements as mentioned in the preceding paragraph, the sub-contracting services provided by the Group to the Hon Hai Group or by the Hon Hai Group to the Group should be priced:

1. with reference to the average market price;
2. where there is no market price, on 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 Lease Transaction***

As set out in the Prospectus, the Group's principal manufacturing facilities are located at the Shenzhen Industrial Park owned by the Hon Hai Group. The Group leases a number of premises from the Hon Hai Group in the Shenzhen Industrial Park.

On 18 January 2005, 深圳富泰宏精密工業有限公司 (Shenzhen Futaihong Precision Industrial Co., Ltd.), a wholly-owned subsidiary of the Company, entered into a framework lease agreement with Hon Hai pursuant to which Hon Hai agreed to lease certain PRC premises, in and out of the Shenzhen Industrial Park, owned by it or its subsidiaries from 1 January 2004 to 31 December 2006. The relevant parties shall enter into a specific detailed lease agreement for each of the premises leased by the Group under the framework lease agreement. Rent payable by the Group under the Lease Transaction shall be fair and reasonable and be determined with reference to the market rentals of other similar properties in the market. If the average market price cannot be determined, the rental payable under the Lease Transaction shall be determined on a cost plus basis.

The historic and the current monthly rental of the leased premises in the Shenzhen Industrial Park was determined with reference to the state guideline rents (房屋租賃指導租金) issued by the Shenzhen Municipal Bureau of Land Resources and Housing Management.

#### ***The Equipment Purchase Transaction and the Equipment Sales Transaction***

It was stated in the Prospectus that the Group has in the past from time to time purchased equipment, such as self-manufactured or used equipment, and the associated know-how and intellectual property, from the Hon Hai Group and sold equipment, such as used equipment, to the Hon Hai Group.

On 18 January 2005, the Company entered into a framework equipment purchase agreement and a framework equipment sales agreement with Hon Hai, pursuant to which the Group may from time to time purchase or sell equipment from and to Hon Hai and its subsidiaries. On 12 January 2006, the Company entered into supplemental agreements to expand the coverage of the two relevant framework agreements to the entire Hon Hai Group and to clarify the terms in relation to the pricing of the purchase of equipment by the Group. Pursuant to the supplemental agreements, the equipment purchased/sold by the Group should be priced:

1. at the book value recorded in the accounts of the relevant member of the Hon Hai Group or the Group (as the case may be);
2. if item (1) is not applicable, at the average market price where there is market price;
3. where there is no market price, on principle of "cost plus" with the mark-up to be agreed between the parties based upon reasonable commercial principles; and
4. where none of the above pricing bases is appropriate, at a price to be agreed between the parties based upon reasonable commercial principles.

### **Term of the transactions**

In respect of the Group 1 Transactions, the Group proposes to enter into the Supplemental Agreements to extend the term of the transactions from 31 December 2006 to 31 December 2007. In respect of the Group 2 Transactions, supplemental agreements were entered into on 12 January 2006 with the relevant parties to the framework agreements to extend the term of the Group 2 Transactions from 31 December 2006 to 31 December 2007.

### **REASONS FOR THE TRANSACTIONS**

The Company believes it is in its best interests to carry out the Continuing Connected Transactions. The reasons for entering into the Continuing Connected Transactions are set out below:

#### **The Purchase Transaction**

As explained above, Hon Hai is one of the leading players in the 3C industry. Due to the 3C industry convergence trend, an increasing number of types of materials and components manufactured by the Hon Hai Group are used for the manufacture of handsets. The Company believes it is an important competitive advantage of the Group in the handset manufacturing service industry that members of its parent group together with the Group can provide a range of vertically integrated manufacturing services to the customers. Furthermore, a number of the members of the Hon Hai Group are Approved Vendors. The Group is required by its customers to purchase most of the key materials and components from Approved Vendors.

#### **The Product Sales Transaction**

The Company considers it in its best interests to generate more income by carrying out product sales to the Hon Hai Group in response to their needs from time to time, provided they purchase from the Group at prices comparable to market prices and/or are considered to be fair and reasonable to the Company.

#### **The General Services**

The production facilities of the Group in Shenzhen, the PRC are located at the industrial park owned and managed by Hon Hai. The Company considers that it is more cost effective for the Group to share some other services provided by Hon Hai, such as product testing, specialist inspection and information technology and communication services.

#### **The R&D Transaction**

The Hon Hai Group may possess technical equipment, facilities and knowledge for carrying out certain research and development that the Group currently does not have the capacity to carry out. The Company considers it more efficient and cost-efficient to engage relevant parties of the Hon Hai Group to conduct the research and development work for the Group.

#### **The Sub-contracting Income Transaction**

The Company considers it 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 comparable to the market prices as required under the relevant framework sub-contracting agreement entered into between the Company and Hon Hai.

#### **The Sub-contracting Expense Transaction**

The sub-contracting services provided by the Hon Hai Group help the Group manufacture and deliver products in larger volumes and/or more quickly in response to the increasing demands from the Group's customers from time to time.

### **The Lease Transaction**

The Group has developed a substantial part of its PRC operations in Hon Hai's industrial park in Shenzhen, PRC because the Company considers it beneficial for the Group be close to other members of the Hon Hai Group in view of the close business relationships. Accordingly, the Group has been leasing and will continue to lease premises from the Hon Hai Group as part of the Group's production base.

### **The Equipment Purchase Transaction**

The Hon Hai Group is able to customize standard industry equipment to varying degrees to better suit the production processes of the Company. Purchasing equipment from the Hon Hai Group helps accelerate delivery time of the equipment to the Group. The Group in the past also purchased used equipment that was in good condition from the Hon Hai Group at the book value of the equipment in Hon Hai's accounts. It is typically also more convenient for the Group to obtain the required maintenance services for the customized equipment from the Hon Hai Group.

### **The Equipment Sales Transaction**

The handset manufacturing services operations of the Company require high precision equipment. As the product specifications required by the Group's customers increase, the Group's high precision equipment may from time to time no longer be of the standard required to meet these higher product specifications. The Hon Hai Group may be able to utilize such equipment in its other businesses, such as computers and consumer electronics. By selling such equipment to Hon Hai, the Group is able to recover some of the value in the equipment.

## **HISTORIC VALUES AND ANNUAL CAPS**

The table below sets out (1) the respective values of the Continuing Connected Transactions for the six months ended 30 June 2005; and (2) the original annual caps of such transactions under the Waivers.

<i>(in US\$'000)</i>	<b>Unaudited amount for the six months ended 30 June 2005</b>	<b>Original cap for the year ended 31 December 2005</b>	<b>Original cap for the year ending 31 December 2006</b>
The Purchase Transaction	116,415	111,800	145,340
The Product Sales Transaction	7,169	16,740	20,080
The General Services	5,538	4,813	6,256
The R&D Transaction	1,485	1,400	1,690
The Sub-contracting Income Transaction	1,982	3,185	4,141
The Sub-contracting Expense Transaction	6,377	23,400	30,420
The Lease Transaction	595	1,510	1,960
The Equipment Purchase Transaction	6,061	40,000	40,000
The Equipment Sales Transaction	6,226	23,747	11,825

*Note:*

*Some of the figures above are different from or do not correspond with the disclosures made in the interim report of the Company for the six months ended 30 June 2005 as a result of the extension of scope of certain transactions to include certain new members of the Hon Hai Group as parties to the transactions as well as certain reclassifications and adjustments in respect of, among other things, differences between accounting principles and the Listing Rules connected transaction requirements and certain cut-off adjustments. The above figures represent the historical data of the relevant Continuing Connected Transactions for the purposes of the Listing Rules.*

At the time of determining the original annual caps for certain Continuing Connected Transactions, the projections made by the Company were lower than the actual value of the transactions. It was partly due to the inadequacy of historical growth data for the justification of higher cap amounts at that time. Furthermore, the business of the Group has continued to grow at a rapid rate, resulting in a significant increase in the level of operations and transactions required to support the Group's ordinary business. The increasing demands for handsets from the Group's customers not only increase the sales of the Group but also the volume and transaction values of a number of the Continuing Connected Transactions, all of which form part of the ordinary and usual course of business of the Group. The Company also believes that the continuing convergence trend of the 3C industry has also resulted in the increase in the various transactions between the Group and the Hon Hai Group. As a result of all the above factors, the values of the Purchase Transaction, the Product Sales Transaction, the General Services, the R&D Transaction and the Sub-contracting Income Transaction have exceeded their respective annual cap amounts under the Waivers for the year ended 31 December 2005.

## NEW ANNUAL CAPS

The board of Directors has considered and resolved that the new annual caps for the Continuing Connected Transactions be set as follows:

(in US\$'000)	Revised annual caps For the year ended 31 December 2005	Revised annual caps For the year ending 31 December 2006	Annual caps For the year ending 31 December 2007
The Purchase Transaction ( <i>Note 1</i> )	414,000	621,000	931,000
The Product Sales Transaction ( <i>Note 1</i> )	85,300	254,700	500,000
The General Services	16,300	24,400	36,500
The R&D Transaction	3,800	5,700	8,600
The Sub-contracting Income Transaction	5,500	8,300	12,400
The Sub-contracting Expense Transaction	23,400 ( <i>Note 2</i> )	30,420 ( <i>Note 2</i> )	44,900
The Lease Transaction	2,000	3,000	4,500
The Equipment Purchase Transaction	40,000 ( <i>Note 2</i> )	40,000 ( <i>Note 2</i> )	40,000
The Equipment Sales Transaction	23,747 ( <i>Note 2</i> )	11,825 ( <i>Note 2</i> )	11,825

### Notes:

1. The respective new annual cap amounts for the Purchase Transaction and the Product Sales Transaction for the year ended 31 December 2005 and the two years ending 31 December 2006 and 2007 are subject to the approval of the independent shareholders of the Company.
2. The annual cap amounts for the year ended 31 December 2005 and the year ending 31 December 2006 for the Sub-contracting Expense Transaction, the Equipment Purchase Transaction and the Equipment Sales Transaction remain unchanged from those allowed under the Waivers.

The new annual cap amounts are determined with reference to projections of the Company which in turn were prepared by the Company mainly with reference to the following factors:

- historical growth rates of the turnover of the Group and the values of the subject transactions;
- historical percentages of the relevant values of the subject transactions to the turnover of the Group and assuming that such percentages will remain relatively stable;
- internal target turnover of the Group;
- the recent level of the subject transactions in July, August, September and October 2005;
- indications received from the relevant members of the Hon Hai Group; and/or
- the existing caps for certain transactions.

The Directors (excluding the independent non-executive Directors who will express their view after receiving advice from the independent financial adviser) consider that the new annual cap amounts for each of the Group 1 Transactions are fair and reasonable. The Directors (including the independent non-executive Directors) consider that the new annual cap amounts for each of the Group 2 Transactions are fair and reasonable.

## **LISTING RULES REQUIREMENTS**

Based on the maximum new annual caps for the year ended 31 December 2005 and the two years ending 31 December 2006 and 2007 in respect of each of the Group 2 Transactions, 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 Group 2 Transactions are only subject to the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules.

Based on the maximum of the proposed annual caps for the year ended 31 December 2005 and the two years ending 31 December 2006 and 2007 in respect of the Group 1 Transactions, the Group 1 Transactions are non-exempt continuing connected transactions for the Company. Accordingly, the Group 1 Transactions, the Supplemental Agreements, as well as the proposed annual caps in respect of each of the Group 1 Transactions for the year ended 31 December 2005 and the two years ending 31 December 2006 and 2007, are subject to approval by the independent shareholders of the Company. An extraordinary general meeting will be convened by the Company with a view to seeking approval from the independent shareholders of the Company by poll in accordance with the requirements of the Listing Rules. Hon Hai and its associates will abstain from voting at the extraordinary general meeting regarding the resolution to be proposed for approving the above matters. An independent board committee has been established to consider the Group 1 Transactions, the terms of the Supplemental Agreements, and the proposed annual caps in respect of each of the Group 1 Transactions for the year ended 31 December 2005 and the two years ending 31 December 2006 and 2007. First Shanghai Capital Limited has been appointed by the Company as independent financial adviser to advise the independent board committee and the independent shareholders in respect of the above matters.

In accordance with Rules 14A.49, 14A.58 and 14A.59 of the Listing Rules, a circular will be despatched to the shareholders of the Company setting out, among other things, details of the Group 1 Transactions, the Supplemental Agreements and the proposed annual caps and the letters from the independent board committee and First Shanghai Capital Limited, being the independent financial adviser, in this regard.

All the Continuing Connected Transactions are subject to the requirements under Rules 14A.37 to 14A.38 of the Listing Rules.

The Directors appreciate that the Company is required to comply with the applicable announcement and/or independent shareholders' approval requirements if any of the cap amounts under the Waivers is exceeded. Ernst and Young Corporate Finance Limited has been appointed by the Company to advise the Company in respect of its compliance with the Listing Rules regarding the Continuing Connected Transactions.

The Stock Exchange has expressed and the Company acknowledges that the actual values of certain Continuing Connected Transactions for the six months ended 30 June 2005 exceeding the applicable cap amounts under the Waivers constitutes a breach of the Listing Rules. The Stock Exchange has also expressed that it reserves the rights to take disciplinary actions against the Company and the Directors in respect of the above breach. The Company is in the process of reviewing its internal control procedures in respect of the monitoring of continuing connected transactions with a view to ensuring timely compliance with the relevant requirements under the Listing Rules in future.

## **DEFINITIONS**

“Altus”	Altus Technology Inc., a company incorporated in Taiwan and is an associate of Hon Hai
“Approved Vendor(s)”	supplier(s) of materials and components for the manufacture of handsets as approved by the customer(s) of the Group
“associate(s)”	has 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
“Continuing Connected Transactions”	the Group 1 Transactions and the Group 2 Transactions
“Directors”	the directors of the Company
“Equipment Purchase Transaction”	purchases of equipment by the Group from Hon Hai Group (continuing connected transaction category 5A in the Prospectus)

“Equipment Sales Transaction”	sales of equipment by the Group to Hon Hai Group (continuing connected transaction category 5B in the Prospectus)
“Foxconn Technology”	鴻準精密工業股份有限公司 (Foxconn Technology Company Limited), a limited liability company incorporated on 26 April 1980 in Taiwan and an associate of Hon Hai
“General Services”	utilities, support and other general services provided by the Hon Hai Group to the Group (continuing connected transaction category 4A in the Prospectus)
“Group”	the Company and its subsidiaries
“Group 1 Transactions”	the Purchase Transaction and the Product Sales Transactions which are subject to the independent shareholders’ approval
“Group 2 Transactions”	the General Services, the R&D Transaction, the Sub-contracting Income Transaction, the Sub-contracting Expense Transaction, the Lease Transaction, the Equipment Purchase Transaction and the Equipment Sales which are exempt from the independent shareholders’ approval
“Hon Hai”	鴻海精密工業股份有限公司 (Hon Hai Precision Industry Company Limited), a company incorporated in Taiwan and listed on the Taiwan Stock Exchange Corporation (and the ultimate controlling shareholder of the Company)
“Hon Hai Group”	Hon Hai, its subsidiaries and/or associates (as the case may be)
“Innolux”	群創光電股份有限公司 (Innolux Display Corporation), a limited liability company incorporated on 14 January 2003 in Taiwan and an associate of Hon Hai
“Lease Transaction”	the lease of properties by the Group from the Hon Hai Group (continuing connected transaction category 3 in the Prospectus)
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PCE Industry”	PCE Industry Inc., a company incorporated in the United States with limited liability (and a subsidiary of Hon Hai)
“percentage ratios”	the percentage ratios calculated based on the requirements under Rule 14.07 of the Listing Rules
“Product Sales Supplemental Agreement”	a supplemental agreement proposed to be entered into among the Company, Hon Hai and Innolux, pursuant to which the terms of the framework product sales agreement will be amended to cover sales of products by the Group to the Hon Hai Group
“Product Sales Transaction”	sales of products by the Group to the Hon Hai Group (continuing connected transaction category 2 in the Prospectus)
“Prospectus”	the prospectus of the Company dated 24 January 2005
“Purchase Supplemental Agreement”	a supplemental agreement proposed to be entered into among the Company, Hon Hai, Innolux and Foxconn Technology pursuant to which the terms of the framework materials and components supply agreement will be amended to cover purchases from the Hon Hai Group
“Purchase Transaction”	purchases of materials and components by the Group from Hon Hai and its subsidiaries and associates (continuing connected transaction category 6 in the Prospectus)
“R&D Transaction”	research and development services provided by PCE Industry to Sutech Industry (continuing connected transaction category 4B in the Prospectus)

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Sub-contracting Expense Transaction”	sub-contracting services provided by the Hon Hai Group to the Group (continuing connected transaction category 4C(ii) in the Prospectus)
“Sub-contracting Income Transaction”	sub-contracting services provided by the Group to the Hon Hai Group (continuing connected transaction category 4C(i) in the Prospectus)
“Supplemental Agreements”	the Purchase Supplement Agreement and the Product Sales Supplemental Agreement
“Sutech Industry”	Sutech Industry Inc., a company incorporated in the United States with limited liability (and a wholly-owned subsidiary of the Company)
“US\$”	United States dollars, the lawful currency of the United States of America
“Waivers”	waivers from strict compliance with the announcement and/or independent shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of a number of continuing connected transactions for the Company, including but not limited to the Continuing Connected Transactions, granted by the Stock Exchange to the Company on 24 January 2005
“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, 12 January 2006

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