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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 TRANSACTIONS

With reference to the Announcements and the Circular, the Group has revised and set (as the case may be) the annual caps for the year ended 31 December 2005 and for each of the two years ending 31 December 2007 in respect of certain continuing connected transactions between the Group and the Hon Hai Group including, among other transactions, the Purchase Transaction, the Equipment Sales Transaction, the Lease Transaction and the General Services.

The Company considers that the present caps for the Purchase Transaction, the Equipment Sales Transaction, the Lease Transaction and the General Services for the two years ending 31 December 2007 may not be sufficient. The Company has proposed to further revise the annual caps for the four classes of continuing connected transactions for the said financial years.

On 20 September 2006, the Company entered into the Framework Design Sub-contracting Service Agreement with Hon Hai pursuant to which the Hon Hai Group has agreed to provide the Design Service to the Group for a period up to 31 December 2007. The Group has set the annual caps for the two years ending 31 December 2007 in respect of the Design Service.

Based on the maximum new annual caps for the two years ending 31 December 2007 in respect of the Equipment Sales Transaction, the General Services, the Lease Transaction and the Design Service, 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 Equipment Sales Transaction, the General Services, the Lease Transaction and the Design Service are only subject to the reporting and announcement requirements of the Listing Rules.

Based on the maximum of the new annual caps for the two years ending 31 December 2007 in respect of the Purchase Transaction, the Purchase Transaction constitutes a non-exempt continuing connected transaction for the Company. The terms of the Purchase Transaction remain the same as those approved by the Independent Shareholders on 28 February 2006. The Company would like to seek approval from the Independent Shareholders for the new annual caps in respect of the Purchase Transaction for the two years ending 31 December 2007.

A circular will be despatched to the shareholders of the Company setting out, among other things, details of the Purchase Transaction and the new annual caps and the letters from the independent board committee and First Shanghai, being the independent financial adviser, in this regard.

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 Announcements and the Circular, the Company has revised and set (as the case may be) the annual caps for the year ended 31 December 2005 and for the two years ending 31 December 2007 in respect of certain continuing connected transactions between the Group and the Hon Hai Group including, among other transactions, the Purchase Transaction, the Equipment Sales Transaction, the Lease Transaction and the General Services. 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 72.89% of the issued share capital of the Company. The revision and setting (as the case may be) of the annual caps for the Purchase Transaction was approved by the Independent Shareholders in February 2006 in accordance with the requirements of the Listing Rules.

Based on the latest available management financial information and the estimated transaction values, the Company considers that the existing caps for the Purchase Transaction, the Equipment Sales Transaction, the Lease Transaction and the General Services for the two years ending 31 December 2007 may not be sufficient. The Company has therefore proposed to revise the annual caps in respect of the Purchase Transaction, the Equipment Sales Transaction, the Lease Transaction and the General Services for the said financial years.

On 20 September 2006, the Company and Hon Hai entered into the Framework Design Sub-contracting Service Agreement in respect of the provision of the Design Service by the Hon Hai Group. The Group has set the annual caps for the two years ending 31 December 2007 in respect of the Design Service in compliance with the Listing Rules.

The Company (including the view of the independent non-executive Directors in respect of the Purchase Transaction) considers that the Continuing Connected Transactions have 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 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

Existing transactions which were previously set out in the Announcements

The Purchase Transaction

The Company, Hon Hai, Innolux and Foxconn Technology entered into a framework materials and components supply agreement on 19 January 2005 (as amended by a supplemental agreement entered into on 28 February 2006 after the supplemental agreement was approved by the Independent Shareholders on the same date) pursuant to which the Group purchases materials and components from the Hon Hai Group for the period up to 31 December 2007 according to the following pricing:

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 Equipment Sales Transaction

The Company entered into a framework equipment sales agreement with Hon Hai on 18 January 2005 (as amended by a supplemental agreement dated 12 January 2006) pursuant to which the Group may from time to time sell equipment to the Hon Hai Group which should be priced:

1. at the book value recorded in the accounts of the relevant member of the Group;
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 the principle of "cost plus" with a 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.

The General Services

The Company entered into a general services agreement with Hon Hai on 18 January 2005 (as amended by a supplemental agreement dated 12 January 2006) 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 the 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 based on the actual cost incurred by the Hon Hai Group and certain allocation bases as agreed between the parties from time to time depending on the nature of the General Services. The Company considers that the historic and present allocation bases and ratios to be 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 Lease Transaction

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 the Framework Lease Agreement on 18 January 2005 (as amended on 12 January 2006) with Hon Hai in respect of the Lease Transaction. Pursuant to the Framework Lease Agreement, Hon Hai has agreed to lease premises owned by it or its subsidiaries in the PRC to the Group from time to time as requested by the Group, including but not limited to those located at the Shenzhen Industrial Park, up to 31 December 2007.

In view of the global development of the Group, the Company, 深圳富泰宏精密工業有限公司 (Shenzhen Futaihong Precision Industrial Co., Ltd.) and Hon Hai entered into a supplemental agreement to the Framework Lease Agreement on 20 September 2006 for the purposes of expanding the scope of the Lease Transaction to cover premises owned by Hon Hai or its associates worldwide.

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 (as amended by the supplemental agreement dated 20 September 2006). 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. If both the market rental basis and the cost-plus basis are not applicable, the rental payable under the Lease Transaction shall be agreed between the relevant parties on an arm's-length basis.

The historic and the current monthly rental of the leased premises was determined with reference to the rental guideline issued by the relevant government authority and/or after arm's-length negotiations between the relevant parties and/or with reference to the lease of property by a member of the Hon Hai Group to an independent third party of the Hon Hai Group.

New transaction

The Design Service

On 20 September 2006, the Company entered into the Framework Design Sub-contracting Service Agreement with Hon Hai pursuant to which Hon Hai has agreed to provide or procure its associates to provide the Design Service in accordance with the requirements of the Group's customers from time to time at prices to be agreed between the parties according to the relevant prices agreed between the Group's customers and the Group. The Design Service generally includes, among other things, mechanical design, printed circuit board layout design, software development and other related integration work in order to come up with a complete full-function phone design, in accordance with the project specifications required by the customers of the Group. The Framework Design Sub-contracting Service Agreement is for a term up 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 the leading player in the 3C manufacturing services industry. Under the convergence trend of the 3C industries, 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 that it is an important competitive advantage of the Group in the handset manufacturing service industry as 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 Equipment Sales Transaction

From time to time certain equipment of the Company no longer meet the production needs of the Group which may be caused as a result of a number of factors, such as new product specifications required by customers, technology advancement and new production arrangements. However, such equipment may be useful to the Hon Hai Group for its businesses.

The General Services

Most of the production facilities of the Group are located at premises owned and managed by the Hon Hai Group and leased to the Group under the Lease Transaction. Within such premises, Hon Hai manages to provide a number of general administrative, support and utility services to all the tenants, including the Group, which are necessary for the tenants to carry out their operations in such locations. 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 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 their leading capabilities and expertise amid the convergence trend within the 3C industries. The physical proximity helps engender additional savings and efficiency to the Group if the Group's customers select these companies of the Hon Hai Group as the Approved Vendors. Furthermore, the Hon Hai Group has been building new factories and other premises as part of its business expansion, which coincides with the Group's expansion plan in terms of location selections. 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 Design Service

The Group has introduced handset and component design services to its customers. As some of the requests of such services involve design services that the Group does not currently have the internal resources to provide, the Group subcontracts the Design Service to the Hon Hai Group, which has the necessary design capacity and a close relationship with the Company, to provide such Design Service to the Group's customers. The Company believes that it is in its interests to satisfy the business needs of its customers by providing a comprehensive range of services to its customers by requesting the Hon Hai Group to provide the Design Service. Under the Design Service arrangement, the Design Service is charged according to prices agreed between the Group and its customers in respect of the handset design projects requested by the Group's customers. No profit or loss is expected to be generated from the arrangement of assisting the Group's customers in procuring the Design Service from the Hon Hai Group.

HISTORICAL VALUES AND ANNUAL CAPS

The table below sets out (1) the respective values of the Continuing Connected Transactions for the year ended 31 December 2005; and (2) the original annual caps of such transactions for the year ended 31 December 2005 and the years ending 31 December 2006 and 2007 as stated in the Announcements and the Circular.

| (in US\$'000) | Audited amount | | Original cap | | Original cap | |
|---------------------------------|--|--|---|---|---|--|
| | for the year ended 31 December 2005 | Cap for the year ended 31 December 2005 | for the year ending 31 December 2006 | for the year ending 31 December 2007 | for the year ending 31 December 2007 | |
| The Purchase Transaction | 444,457 | 480,000 | 844,000 | 1,266,000 | | |
| The Equipment Sales Transaction | 8,839 | 23,747 | 11,825 | 11,825 | | |
| The General Services | 14,956 | 16,300 | 24,400 | 36,500 | | |
| The Lease Transaction | 1,751 | 2,000 | 3,000 | 4,500 | | |
| The Design Service | – | N/A | N/A | N/A | | |

NEW ANNUAL CAPS

The business of the Group has been growing satisfactorily. Due to the continuous convergence trend of the 3C industries and the development of the Hon Hai Group as the leading manufacturing service provider of the 3C industries, more and more components manufactured by the Hon Hai Group may be used and have been chosen by the Group's customers for the production of the Group's handsets. Accordingly, the value of the Purchase Transaction continues to increase. In addition, the Group has been enhancing its production capacities by expanding its production facilities. As a result of the expansion, the Group has been leasing more premises from the Hon Hai Group and the level of the General Services, which significantly depends on the size of operations of the Group, has also been increasing.

Based on the above reasons, the latest available management financial information and the estimated transaction values, the Company estimates that the original annual caps for the Purchase Transaction, the Lease Transaction and the General Services for the two years ending 31 December 2007 may not be sufficient.

With a view to addressing customers' new product specifications and to further enhancing the production efficiency of the Group, the Company plans to focus its resources on improving its handset production capability. The Company thus will sell certain machinery and equipment which no longer meet its production needs with an aggregate net book value of approximately US\$36.1 million as at 31 July 2006 to the Hon Hai Group in 2006 pursuant to the framework equipment sales agreement. As this development was not taken into account when the original caps for the Equipment Sales Transaction for the two years ending 31 December 2007 were determined, such original caps may not be sufficient under the present circumstances.

In respect of the new Design Service, the Company has also set caps for it for the two years ending 31 December 2007.

The new annual caps for the Continuing Connected Transactions are set below.

| (in US\$'000) | New annual caps for the years ending 31 December | |
|---|--|-----------|
| | 2006 | 2007 |
| The Purchase Transaction (<i>Note 1</i>) | 1,418,600 | 2,235,600 |
| The Equipment Sales Transaction (<i>Note 2</i>) | 52,800 | 15,400 |
| The General Services (<i>Note 2</i>) | 35,800 | 57,100 |
| The Lease Transaction (<i>Note 2</i>) | 5,100 | 9,000 |
| The Design Service (<i>Note 2</i>) | 9,600 | 30,400 |

Notes:

1. Based on the maximum of the new annual caps for the two years ending 31 December 2007 in respect of the Purchase Transaction, the Purchase Transaction constitutes a non-exempt continuing connected transaction for the Company under the Listing Rules. Accordingly, the new annual cap amounts for the Purchase Transaction for the two years ending 31 December 2007 are subject to the approval of the Independent Shareholders.
2. Based on the maximum new annual caps for the two years ending 31 December 2007 in respect of the Equipment Sales Transaction, the General Services, the Lease Transaction and the Design Service, 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 Equipment Sales Transaction, the General Services, the Lease Transaction and the Design Service are only subject to the reporting and announcement requirements of the Listing Rules.

The new annual cap amounts (except for the Design Service) are determined with reference to projections of the Company which in turn were prepared by the Company mainly with reference to the following major 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;
- internal expansion plan of the production facilities of the Group;
- the recent level of the subject transactions in 2006;
- the current aggregate book value of the machinery and equipment which are proposed to be sold to the Hon Hai Group as mentioned above in the case of the Equipment Sales Transaction;
- the existing caps for the transactions; and/or
- a buffer ranging from 10% to 30% depending on the nature of the transactions.

The annual cap amounts for the Design Service are determined with reference to the estimated possible demands from the Group's customers for the Design Service which in turn are estimated based on the current projects on hand and those under negotiations and a buffer of 10%.

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 the Purchase Transaction are fair and reasonable. The Directors consider that the new annual cap amounts for the Equipment Sales Transaction, the General Services, the Lease Transaction and the Design Service are fair and reasonable.

LISTING RULES REQUIREMENTS

Based on the maximum new annual caps for the two years ending 31 December 2007 in respect of the Equipment Sales Transaction, the General Services, the Lease Transaction and the Design Service, 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 Equipment Sales Transaction, the General Services, the Lease Transaction and the Design Service 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 new annual caps for the two years ending 31 December 2007 in respect of the Purchase Transaction, the Purchase Transaction is a non-exempt continuing connected transaction for the Company. The terms of the Purchase Transaction remains the same as those approved by the Independent Shareholders on 28 February 2006. The Company would like to seek approval from the Independent Shareholders for the new annual caps in respect of the Purchase Transaction for the two years ending 31 December 2007. An extraordinary general meeting will be convened by the Company with a view to seeking approval from the Independent Shareholders 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 matter. An independent board committee has been established to consider the new annual caps in respect of the Purchase Transaction for the two years ending 31 December 2007. First Shanghai has been appointed by the Company as an independent financial adviser to advise the independent board committee and the Independent Shareholders in respect of the above matter.

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 Purchase Transaction and the new annual caps and the letters from the independent board committee and First Shanghai, being the independent financial adviser, in this regard.

DEFINITIONS

| | |
|-------------------------------------|--|
| “Announcements” | the announcements of the Company dated 12 and 23 January 2006 |
| “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)” | having the meaning as defined in the Listing Rules |
| “Circular” | the circular of the Company dated 10 February 2006 |
| “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 Purchase Transaction, the Equipment Sales Transaction, the General Services, the Lease Transaction and the Design Service |
| “Design Service” | the handset and component design services provided by the Hon Hai Group contemplated under the Framework Design Sub-contracting Service Agreement |
| “Directors” | the directors of the Company |

| | |
|--|--|
| “Equipment Sales Transaction” | sales of equipment by the Group to the Hon Hai Group contemplated under the framework equipment sales agreement entered into between the Company and Hon Hai on 18 January 2005 (as amended by a supplemental agreement dated 12 January 2006) |
| “First Shanghai” | First Shanghai Capital Limited, which has been engaged by the Company to advise its independent board committee and the Independent Shareholders in respect of the revised caps for the Purchase Transaction for the two years ending 31 December 2007 |
| “Foxconn Technology” | 鴻準精密工業股份有限公司 (Foxconn Technology Company Limited), an associate of Hon Hai, which is principally engaged in the manufacture and sale of various thermal and light products |
| “Framework Design Sub-contracting Service Agreement” | the framework design sub-contracting service agreement entered into between the Company and Hon Hai on 20 September 2006 pursuant to which the Hon Hai Group has agreed to provide certain handset and component design services at the Group’s requests |
| “Framework Lease Agreement” | the framework Lease Agreement dated 18 January 2005 entered into between 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, and Hon Hai pursuant to which Hon Hai has agreed to lease certain PRC premises, in and out of the Shenzhen Industrial Park, owned by it or its subsidiaries to the Group originally for a term from 1 January 2004 to 31 December 2006; and was subsequently extended to 31 December 2007 by a supplemental agreement dated 12 January 2006 as stated in the announcement of the Company dated 12 January 2006 |
| “General Services” | the general services provided by Hon Hai to the Company contemplated under the general service agreement entered into between the Company and Hon Hai on 18 January 2005 (as amended by a supplemental agreement dated 12 January 2006) |
| “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/or associates (as the case may be) |
| “Independent Shareholders” | the independent shareholders of the Company in respect of the Purchase Transaction for the purposes of the Listing Rules |
| “Innolux” | 群創光電股份有限公司 (Innolux Display Corporation), an associate of Hon Hai, which is principally engaged in the manufacture and sale of liquid crystal displays and related products |
| “Lease Transaction” | the lease of properties by the Group from the Hon Hai Group as contemplated under the Framework Lease Agreement (as amended by the supplemental agreement dated 20 September 2006) |
| “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 |
| “Purchase Transaction” | purchases of materials and components by the Group from the Hon Hai Group contemplated under the framework materials and components supply agreement entered into among the Company, Hon Hai, Innolux and Foxconn Technology on 19 January 2005 (as amended by a supplemental agreement dated 28 February 2006) |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “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, 20 September 2006

* *For identification purpose only*

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