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## **CONTINUING CONNECTED TRANSACTIONS**

**Financial adviser**

**OSK Asia Capital Limited**

The Group has entered into agreements in respect of the Continuing Connected Transactions which consist of the Group 1 Transactions and the Group 2 Transactions.

The Company considers that the respective possible amounts of the Sub-contracting Income Transaction, the Sub-contracting Expense Transaction, the Lease Expense Transaction and the General Services Expense Transaction for the whole year 2007 may exceed the relevant annual caps for the transactions. Accordingly, the Company has revised the respective annual caps of such transactions for the year ending 31 December 2007.

The Company has set or proposes to set the respective annual caps for the Continuing Connected Transactions for the three years ending 31 December 2010.

Based on the maximum new annual caps for the three years ending 31 December 2010 in respect of the Group 2 Transactions and the revised annual caps for the year ending 31 December 2007 for the Sub-contracting Income Transaction, the Sub-contracting Expense Transaction, the Lease Expense Transaction and the General Services Expense Transaction respectively, all relevant percentage ratios are less than 2.5%. The Group 2 Transactions and the revision of the respective annual caps for the year ending 31 December 2007 for the Sub-contracting Income Transaction, the Sub-contracting Expense Transaction, the Lease Expense Transaction and the General Services Expense Transaction are only subject to the reporting and announcement requirements of the Listing Rules.

Based on the maximum amounts of the new annual caps for the three years ending 31 December 2010 in respect of the Group 1 Transactions, the Group 1 Transactions are non-exempt continuing connected transactions for the Company under the Listing Rules. Accordingly, the Group 1 Transactions, the Supplemental Agreements, the Consolidated Services and Sub-contracting Expense Agreement as well as the proposed annual caps in respect of the Group 1 Transactions for the three years ending 31 December 2010 are subject to approval by the Independent Shareholders. 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. The

Independent Board Committee has been established. First Shanghai has been appointed by the Company as an independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

A circular will be despatched to the Shareholders setting out, among other things, details of the Group 1 Transactions, the Supplemental Agreements, the Consolidated Services and Sub-contracting Expense Agreement, the new annual caps of the Group 1 Transactions and the letters from the Independent Board Committee and First Shanghai.

## INTRODUCTION

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.

The Hon Hai Group is the leading global manufacturing service provider in the 3C industries. Hon Hai is the ultimate controlling shareholder of the Company holding approximately 72.15% of the issued share capital of the Company.

The Group has entered into agreements in respect of the Continuing Connected Transactions with the Hon Hai Group.

## GROUP 1 TRANSACTIONS

### *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.

The Company, Hon Hai, Innolux and Foxconn Technology entered into the Purchase Agreement pursuant to which the Group has agreed to purchase materials and components from the Hon Hai Group for a term up to 31 December 2007 upon and subject to the terms and conditions set out therein.

The Group anticipates that it may from time to time require certain materials and components from the Hon Hai Group for the Group's handset manufacturing that are tailor-made according to specifications requested by the Group or may not be commonly available in the market. As such, it may not be practicable for the Company to price such transaction based on the existing terms of the Purchase Agreement as the Group may not be able to obtain quotes for the same materials and components from other independent suppliers and be subject to approval of the Group's customers as in the case of the Approved Vendors.

On the date of this announcement, the Company entered into the Supplemental Purchase Agreement conditional upon obtaining the Independent Shareholders' approval to (among other things) revise the pricing terms of the Purchase Agreement and extend the term of the Purchase Agreement to 31

December 2010. Pursuant to the Supplemental Purchase Agreement, the revised pricing terms of the Purchase Transaction are as follows:

- (1) in respect of purchases from an Approved Vendor, at the price agreed between the supplier and the Group's customer; if not, at a price to be determined by reference to the average market price; or
- (2) where (1) above is not appropriate or applicable, at a price to be agreed between the Group and the Hon Hai Group upon the basis of the principle of "cost plus"; or
- (3) where none of the above pricing bases is appropriate or applicable, at a price to be agreed between the Group and the Hon Hai Group based upon reasonable commercial principles.

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

The Company, Hon Hai and Innolux entered into the Product Sales Agreement pursuant to which the Company has agreed to sell or procure its subsidiaries to sell to the Hon Hai Group parts or products manufactured or owned by the Group for a term up to 31 December 2007 upon and subject to the terms and conditions set out therein.

The Group considers that it may from time to time be approved or designated by customers of the Hon Hai Group to sell the relevant products to the Hon Hai Group under the Product Sales Transaction. On the date of this announcement, the Company entered into the Supplemental Product Sales Agreement conditional upon obtaining the Independent Shareholders' approval to (among other things) revise pricing terms as follows:

- (1) where the Group has been approved or otherwise designated by the relevant customers of the Hon Hai Group, at the price agreed between the Group and such customers; if not, at a price to be determined by reference to the average market price; or
- (2) where (1) above is not appropriate or applicable, at a price to be agreed between the Group and the Hon Hai Group upon the basis of the principle of "cost plus"; or
- (3) where none of the above pricing bases is appropriate or applicable, at a price to be agreed between the Group and the Hon Hai Group based on reasonable commercial principles.

The term of the Product Sales Agreement will also be extended to 31 December 2010 pursuant to the Supplemental Product Sales Agreement.

#### ***General Services Expense Transaction***

The Company and Hon Hai entered into the General Services Expense Agreement pursuant to which the Hon Hai Group has agreed to provide general administrative, support (eg, maintenance of common areas and facilities and catering services) and utility services to the Group for a term up to 31 December 2007 upon and subject to the terms and conditions set out therein at a price determined as follows:

- (1) where there is a price determined by the state of the PRC, at such state determined price; or
- (2) where there is no state determined price, at the market price; or
- (3) where there is no state determined price or market price, on the principle of "cost plus"; or
- (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 Expense Transaction 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 Expense Transaction. The Company considers the historic and present allocation bases and ratios to be fair and reasonable. The Company will endeavour to agree with Hon Hai on any future allocation bases and ratios on a fair and equitable basis.

On the date of this announcement, the Company entered into the Supplemental General Services Expense Agreement conditional upon obtaining the Independent Shareholders' approval to (among other things) extend the term of the General Services Expense Agreement to 31 December 2010.

#### ***Consolidated Services and Sub-contracting Expense Transaction***

The Hon Hai Group has been, from time to time, providing the R&D Transaction, the Design Service and the Sub-contracting Expense Transaction to the Group. The Company has entered into relevant agreements for a term up to 31 December 2007 and has set annual caps for the respective transactions in accordance with the Listing Rules.

The Company has previously classified the transactions of the R&D Transaction, the Design Service and the Sub-contracting Expense Transaction under separate classes based on their different services and pricing bases. The Company considers that with a view to achieving better internal administration, management and operation of such transactions, it will be in the interests of the Company to group the R&D Transaction, the Design Service and the Sub-contracting Expense Transaction into a single class of continuing connected transactions of the Company as all such transactions in a broad sense relate to the Hon Hai Group providing various services in connection with the Group's handset manufacturing business.

On the date of this announcement, the Company and Sutech Industry Inc. (a wholly-owned subsidiary of the Company) entered into the Consolidated Services and Sub-contracting Expense Agreement conditional upon obtaining the Independent Shareholders' approval with Hon Hai and PCE Industry Inc. (a wholly-owned subsidiary of Hon Hai principally engaged in the provision of research and development services). Pursuant to the Consolidated Services and Sub-contracting Expense Agreement, the Hon Hai Group will provide services including research and development service, design service, services relating to handset manufacturing and handset repair service to the Group for a term commencing from 1 January 2008 to 31 December 2010 (both dates inclusive) upon and subject to the terms and conditions set out therein at a price determined as follows:

- (1) where the Hon Hai Group has been approved or otherwise designated by the relevant customers of the Group, at the price agreed between the Hon Hai Group and such customers; if not, at a price to be determined by reference to the average market price; or
- (2) where (1) above is not appropriate or applicable, at a price to be agreed between the Group and the Hon Hai Group upon the basis of the principle of "cost plus"; or
- (3) where none of the above pricing bases is appropriate or applicable, at a price to be agreed between the Group and the Hon Hai Group based on reasonable commercial principles.

Both the Group and the Hon Hai Group provide handset repair services for different models of handsets pursuant to the different requirements of the handsets and the respective capabilities of the Group and the Hon Hai Group.

## **GROUP 2 TRANSACTIONS**

### ***Lease Expense Transaction***

The Group has developed a substantial part of its PRC operations in Hon Hai's industrial park in Shenzhen, PRC.

The Company, Shenzhen Futaihong (a wholly-owned subsidiary of the Company) and Hon Hai entered into the Framework Lease Agreement pursuant to which Hon Hai has agreed to lease premises owned by it or its subsidiaries and located worldwide to the Group from time to time as requested by the Group for a term up to 31 December 2007 upon and subject to the terms and conditions set out therein.

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 Expense Transaction shall be fair and reasonable and be determined with reference to the average market rental of other similar local properties in the market. If the average market rental cannot be determined, the rental payable under the Lease Expense 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 Expense 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 published by the relevant government authority or association and/or after arm's-length negotiations between the relevant parties.

The Company and Shenzhen Futaihong entered into a supplemental agreement with Hon Hai on the date of this announcement (among other things) to extend the term of the Framework Lease Agreement to 31 December 2010.

### ***Equipment Purchase Transaction and Equipment Sales Transaction***

The Company and Hon Hai entered into the Framework Equipment Purchase Agreement and the Framework Equipment Sale Agreement pursuant to which the Group has agreed to from time to time purchase or sell equipment from or to the Hon Hai Group for a term up to 31 December 2007 upon and subject to the terms and conditions set out therein.

The Company entered into supplemental agreements with Hon Hai on the date of this announcement (among other things) to make precise the respective pricing terms of the Equipment Purchase Transaction and the Equipment Sales Transaction and to extend the respective terms of the Framework Equipment Purchase Agreement and the Framework Equipment Sale Agreement to 31 December 2010. Pursuant to the Framework Equipment Purchase Agreement and the Framework Equipment Sale Agreement as amended by their respective supplemental agreements, the Equipment Purchase Transaction and the Equipment Sales Transaction are priced as follows:

- (1) at the book value of the relevant equipment as recorded in the accounts of the relevant member of the Hon Hai Group or the Group (as the case may be); or
- (2) if (1) above is not appropriate or applicable, at a price to be determined by reference to the average market price; or
- (3) where (1) and (2) above are not appropriate or applicable, at a price to be agreed between the relevant parties on the basis of the principle of "cost plus"; or
- (4) where none of the above pricing bases is appropriate or applicable, at a price to be agreed between the parties based upon reasonable commercial principles.

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

The Company and Hon Hai entered into the Sub-contracting Income Agreement pursuant to which the Hon Hai Group has agreed to engage the Group to provide certain services to the Hon Hai Group for a term up to 31 December 2007 upon and subject to the terms and conditions set out therein.

The Company considers that the Group may from time to time be approved or designated by the customers of the Hon Hai Group to provide the relevant services to the Hon Hai Group. The Company has revised the pricing terms of the Sub-contracting Income Transaction accordingly.

On the date of this announcement, the Company and Hon Hai entered into a supplemental agreement (among other things) to revise the pricing terms of the Sub-contracting Income Transaction and to extend the term of the Sub-contracting Income Agreement to 31 December 2010. Under the Sub-contracting Income Agreement as amended by the supplemental agreement, the Group has agreed to provide to the Hon Hai Group services, such as molding, metal stamping for desktop computers, handset repair service and other services upon and subject to the terms and conditions set out therein at a price determined as follows:

- (1) where the Group has been approved or otherwise designated by the relevant customers of the Hon Hai Group, at the price agreed between the Group and such customers; if not, at a price to be determined by reference to the average market price; or

- (2) where (1) above is not appropriate or applicable, at a price to be agreed between the Group and the Hon Hai Group upon the basis of the principle of "cost plus"; or
- (3) where none of the above pricing bases is appropriate or applicable, at a price to be agreed between the Group and the Hon Hai Group based on reasonable commercial principles.

Both the Group and the Hon Hai Group provide handset repair services for different models of handsets pursuant to the different requirements of the handsets and the respective capabilities of the Group and the Hon Hai Group.

#### ***Lease Income Transaction***

On the date of this announcement, the Company and Hon Hai entered into a framework lease agreement pursuant to which the Group has agreed to lease to the Hon Hai Group premises owned by the Group as agreed between the parties from time to time for a term from 1 January 2008 to 31 December 2010 (both dates inclusive).

The relevant parties shall enter into a specific lease agreement for each of the premises leased by the Group to the Hon Hai Group pursuant to the framework lease agreement. Rental payable by the Hon Hai Group under the Lease Income Transaction shall be determined on a fair and reasonable basis with reference to the average market rental of other similar local properties in the market. If the average market rental is not available, the rental payable shall be determined on a "cost plus" basis. If both the market rental basis and the "cost-plus" basis are not appropriate or applicable, the rental payable under the Lease Income Transaction shall be agreed between the relevant parties based on reasonable commercial principles.

The Company currently proposes that certain manufacturing premises of the Group in Taiyuan (in Shanxi Province, PRC) and India would be leased to the Hon Hai Group under the Lease Income Transaction.

#### ***General Services Income Transaction***

On the date of this announcement, the Company and Hon Hai entered into a framework general services agreement pursuant to which the Group has agreed to provide general administrative, support (eg, maintenance of common areas and facilities and catering services) and utility services to the Hon Hai Group for a term from 1 January 2008 to 31 December 2010 (both dates inclusive) at a price determined as follows:

- (1) where there is a price determined by the relevant government authority in the location where the relevant services are provided by the Group to the Hon Hai Group, at such government determined price; or
- (2) where there is no government determined price, at the market price; or
- (3) where there is no government determined price or market price, at a price to be agreed between the parties on the basis of the principle of "cost plus"; or

(4) where none of the above pricing bases is appropriate or applicable, at a price to be agreed between the relevant parties based upon reasonable commercial principles.

The “cost plus” pricing principle for each of the Continuing Connected Transactions represents a price to be determined on the basis of the cost of the subject transaction plus a mark-up which is determined with reference to the terms of other transactions similar to the subject transaction.

## **REASONS FOR THE CONTINUING CONNECTED TRANSACTIONS**

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

### **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 that the Group together with the members of the Hon Hai 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 many of the key materials and components from Approved Vendors.

### **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 that they purchase from the Group at prices comparable to market prices and/or which are considered to be fair and reasonable to the Company.

### **General Services Expense Transaction**

Certain 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 Expense Transaction. Within such premises, the Hon Hai Group provides a number of general administrative, support and utility services to all tenants, including the Group, which are necessary for the tenants to carry out their operations in such locations. The Company considers it more cost effective for the Group to share some other services provided by the Hon Hai Group, such as product testing, specialist inspection and information technology and communication services.

### **Consolidated Services and Sub-contracting Expense Transaction**

The Company considers that the services provided by the Hon Hai Group under the Consolidated Services and Sub-contracting Expense Transaction as requested by the Group can enhance the Group's capacity in its handset manufacturing business, provide the Group with greater flexibility and allow it to more efficiently carry on its business.

### **Lease Expense 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 to be close to the 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 can lead to additional savings and efficiency to the Group if the Group's customers select these companies of the Hon Hai Group as the Approved Vendors.

### **Equipment Purchase Transaction**

The Hon Hai Group is able to customise 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 customised equipment from the Hon Hai Group.

### **Equipment Sales Transaction**

From time to time certain equipment of the Group no longer meets the production needs of the Group which may be 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.

### **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 that are fair and reasonable pursuant to the relevant agreement of the transaction.

### **Lease Income Transaction**

The Group has built its own manufacturing premises and there may be surplus space from time to time. The Company considers it in its best interests to lease out such surplus space and generate additional income for the Group at prices comparable to the market pursuant to the relevant agreement in respect of the Lease Income Transaction.

### **General Services Income Transaction**

The Group will from time to time lease premises owned by it to the Hon Hai Group under the Lease Income Transaction. Within such premises, the Group will have its operation together with its general administrative, support and utility services. The Company considers it efficient and in the interest of the Company to generate additional income by extending its general administrative, support and utility services to the Hon Hai Group that operates on such premises or as requested by the Hon Hai Group from time to time at a fair and reasonable price determined based on the relevant agreement of the General Services Income Transaction.

## HISTORICAL VALUES AND ANNUAL CAPS

The table below sets out (1) the actual amount (if applicable) of each of the Continuing Connected Transactions for the year ended 31 December 2006; (2) the existing and revised annual caps (if applicable) for each of the Continuing Connected Transactions for the year ending 31 December 2007; and (3) the new annual caps for each of the Continuing Connected Transactions for the three years ending 31 December 2010.

(in US\$'000)	Audited	Unaudited	Annual	Revised	New annual caps for the year ending 31 December		
	amount for the year ended 31 December 2006	amount for the six months ended 30 June 2007	cap for the year ending 31 December 2007	annual cap for the year ending 31 December 2007	2008	2009	2010
Purchase Transaction (Note 1)	1,064,312	380,057	2,235,600	n/a	1,987,200	2,564,500	3,335,000
Product Sales Transaction (Note 1)	253,333	122,111	500,000	n/a	397,500	512,900	667,000
General Services Expense Transaction (Note 2)	32,725	28,255	57,100	68,400	99,400	128,300	166,800
Consolidated Services and Sub- contracting Expense Transaction (Note 4)	n/a	n/a	n/a	n/a	190,000	285,500	394,000
Sub-contracting Expense Transaction (Notes 3 & 4)	27,268	15,539	44,900	67,000	n/a	n/a	n/a
R&D Transaction (Note 4)	2,250	-	8,600	n/a	n/a	n/a	n/a
Design Service (Note 4)	5,435	-	30,400	n/a	n/a	n/a	n/a
Sub-total	34,953	15,539	83,900				
Lease Expense Transaction (Note 5)	4,459	3,958	9,000	11,500	15,900	20,600	26,700
Equipment Purchase Transaction (Note 5)	23,337	1,408	40,000	n/a	46,000	46,000	46,000
Equipment Sales Transaction (Note 5)	35,565	2,820	15,400	n/a	46,000	46,000	46,000
Sub-contracting Income Transaction (Note 5)	52,494	4,032	12,400	15,000	35,800	46,200	60,100

Lease Income	-	-	n/a	n/a	22,200	26,700	32,000
Transaction (Note 5)							
General Services	-	-	n/a	n/a	17,500	21,000	25,200
Income Transaction (Note 5)							

Notes:

1. Based on the respective maximum amounts of the proposed annual caps for the three years ending 31 December 2010 in respect of the Purchase Transaction and the Product Sales Transaction, the transactions constitute non-exempt continuing connected transactions for the Company under the Listing Rules. Accordingly, the proposed annual cap amounts for the three years ending 31 December 2010 for the Purchase Transaction and the Product Sales Transaction are subject to the approval of the Independent Shareholders.
2. Due to inflation in the prices of the general services provided by the Hon Hai Group to the Group (such as utility) and the fact that the Group is requiring more general services from the Hon Hai Group for its handset manufacturing operations than the level that the Company anticipated when setting the cap for the General Services Expense Transaction for 2007, the Company considers that the possible transaction amount of the General Services Expense Transaction for the whole year 2007 may exceed the annual cap for the transaction for the year ending 31 December 2007 and has therefore revised the annual cap. Based on the revised annual cap for the year ending 31 December 2007 for the General Services Expense Transaction, all relevant percentage ratios are less than 2.5%. In accordance with Rule 14A.34 of the Listing Rules, the revision of the annual cap for the General Services Expense Transaction for the year ending 31 December 2007 is subject to the reporting and announcement requirements of the Listing Rules.

Based on the maximum amounts of the proposed annual caps for the three years ending 31 December 2010 in respect of the General Services Expense Transaction, the General Services Expense Transaction will constitute a non-exempt continuing connected transaction for the Company under the Listing Rules. Accordingly, the General Services Expense Transaction and the relative proposed annual cap amounts for the three years ending 31 December 2010 are subject to the approval of the Independent Shareholders.

3. Due to the Company's reconsideration in the management of its manufacturing resources and the fact that the Company expects to require handset repair services from the Hon Hai Group commencing in the fourth quarter of 2007, the Company considers that the possible transaction amount of the Sub-contracting Expense Transaction in 2007 may exceed the annual cap for the transaction for the year ending 31 December 2007 and has therefore revised the annual cap. Based on the revised annual cap for the year ending 31 December 2007, all relevant percentage ratios are less than 2.5%. In accordance with Rule 14A.34 of the Listing Rules, the revision of the annual cap for the year ending 31 December 2007 for the Sub-contracting Expense Transaction is subject to the reporting and announcement requirements of the Listing Rules.
4. The Company entered into the Consolidated Services and Sub-contracting Expense Agreement conditional upon obtaining the Independent Shareholders' approval pursuant to which the Hon Hai Group will provide the Sub-contracting Expense Transaction, the R&D Transaction and the Design Service to the Group from 1 January 2008 to 31 December 2010 (both dates inclusive). Based on the maximum amounts of the proposed annual caps for the three years ending 31 December 2010 for the transaction, the Consolidated Services and Sub-contracting Expense Transaction constitutes a non-exempt continuing connected

transaction for the Company under the Listing Rules. Accordingly, the proposed annual cap amounts for the three years ending 31 December 2010 for the Consolidated Services and Sub-contracting Expense Transaction are subject to the approval of the Independent Shareholders.

5. Due to the fact that the Group is requiring more leased premises from the Hon Hai Group for its handset manufacturing operations than the level that the Company anticipated when setting the cap for the Lease Expense Transaction for 2007, the Company considers that the possible transaction amount of the Lease Expense Transaction for 2007 may exceed the annual cap for the transaction for the year ending 31 December 2007 and has therefore revised the annual cap.

The Group expects to provide a new handset repair service to the Hon Hai Group commencing in the fourth quarter of 2007. The Company estimates that taking into account the new handset repair service to be provided to the Hon Hai Group, the possible transaction amount of the Sub-contracting Income Transaction in 2007 may exceed the annual cap for the transaction for the year ending 31 December 2007 and has therefore revised the annual cap.

Based on the respective revised annual caps for the year ending 31 December 2007 for the Lease Expense Transaction and the Sub-contracting Income Transaction and the new annual caps for each of the three years ending 31 December 2010 for the Lease Expense Transaction, the Equipment Purchase Transaction, the Equipment Sales Transaction, the Sub-contracting Income Transaction, the Lease Income Transaction and the General Services Income Transaction, all relevant percentage ratios are less than 2.5%. In accordance with Rule 14A.34 of the Listing Rules, the said transactions are subject to the reporting and announcement requirements of the Listing Rules.

The revised or 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 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;
- the recent level of the subject transactions in 2007;
- indications from the Hon Hai Group regarding premises which may be leased from the Group under the Lease Income Transaction and the repair services under the Sub-contracting Income Transaction;
- estimated increasing demand for certain handset manufacturing services for the Hon Hai Group's customers in view of the Hon Hai Group's recent development in its handset manufacturing business;
- estimated growth rates of the Lease Income Transaction and the General Services Income Transaction for 2009 and 2010; and/or
- a buffer of 15% to take into account the rapid development of the mobile phone market.

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 Group 1 Transactions for the three years ending 31 December 2010 are fair and reasonable and the terms of the Group 1 Transactions are fair and reasonable, on normal commercial terms and in the interests of the Company.

The Directors consider that the respective revised annual caps for the year ending 31 December 2007 for the Sub-contracting Income Transaction, the Sub-contracting Expense Transaction, the Lease Expense Transaction and the General Services Expense Transaction and the new annual cap amounts for the Group 2 Transactions for the three years ending 31 December 2010 are fair and reasonable. The Directors consider the terms of the Group 2 Transactions are fair and reasonable, on normal commercial terms and in the interests of the Company.

#### **LISTING RULES REQUIREMENTS**

Based on the maximum new annual caps for the three years ending 31 December 2010 in respect of the Group 2 Transactions and the revised annual caps for the year ending 31 December 2007 for the Sub-contracting Income Transaction, the Sub-contracting Expense Transaction, the Lease Expense Transaction and the General Services Expense Transaction, all relevant percentage ratios are less than 2.5%. In accordance with Rule 14A.34 of the Listing Rules, the Group 2 Transactions and the revision of the respective annual caps for the year ending 31 December 2007 for the Sub-contracting Income Transaction, the Sub-contracting Expense Transaction, the Lease Expense Transaction and the General Services Expense Transaction 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 amounts of the new annual caps for the three years ending 31 December 2010 in respect of the Group 1 Transactions, the Group 1 Transactions are non-exempt continuing connected transactions for the Company under the Listing Rules. Accordingly, the Group 1 Transactions, the Supplemental Agreements, the Consolidated Services and Sub-contracting Expense Agreement as well as the proposed annual caps in respect of the Group 1 Transactions for the three years ending 31 December 2010 are subject to approval by the Independent Shareholders. 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 matters. The Independent Board Committee has been established to consider the Group 1 Transactions, the terms of the Supplemental Agreements and the Consolidated Services and Sub-contracting Expense Agreement respectively, and the proposed annual caps in respect of the Group 1 Transactions for the three years ending 31 December 2010. 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 matters.

In accordance with Rules 14A.49, 14A.58 and 14A.59 of the Listing Rules, a circular will be despatched to the Shareholders setting out, among other things, details of the Group 1 Transactions, the Supplemental Agreements, the Consolidated Services and Sub-contracting Expense Agreement, the new annual caps of the Group 1 Transactions and the letters from the Independent Board Committee and First Shanghai.

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

## **GENERAL**

The Purchase Transaction, the Product Sales Transaction, the General Services Expense Transaction, the Sub-contracting Expense Transaction, the Lease Expense Transaction, the Equipment Sales Transaction, the Equipment Purchase Transaction, the Sub-contracting Income Transaction and the R&D Transaction were disclosed in the initial public offering prospectus of the Company dated 24 January 2005. Information in respect of the setting of the existing annual cap for 2007 for the Purchase Transaction was set out in the circular of the Company dated 6 October 2006. Information in respect of the setting of the existing annual cap for 2007 for the Product Sales Transaction was set out in the circular of the Company dated 10 February 2006. Information in respect of the Design Service and the setting of the respective existing annual caps for 2007 for the General Services Expense Transaction, the Design Service, the Lease Expense Transaction and the Equipment Sales Transaction was set out in the announcement of the Company dated 20 September 2006. Information in respect of the setting of the respective existing annual caps for 2007 for the Sub-contracting Expense Transaction, the R&D Transaction, the Equipment Purchase Transaction and the Sub-contracting Income Transaction was set out in the announcement of the Company dated 12 January 2006.

## **DEFINITIONS**

“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
“Company”	Foxconn International Holdings Limited, a limited liability company incorporated in the Cayman Islands, the shares of which are listed on the Stock Exchange
“Consolidated Services and Sub-contracting Expense Agreement”	the framework consolidated services and sub-contracting agreement conditional upon obtaining the Independent Shareholders’ approval entered into among the Company, Hon Hai, PCE Industry Inc. (a subsidiary of Hon Hai) and Sutech Industry Inc. (a wholly-owned subsidiary of the Company) on the date of this announcement pursuant to which the Hon Hai Group will provide services including research and development service, design service, services relating to handset manufacturing and handset repair service to the Group for a term commencing from 1 January 2008 to 31 December 2010 (both dates inclusive) upon and subject to the terms and conditions set out therein
“Consolidated Services and Sub-contracting Expense Transaction”	the transactions contemplated under the Consolidated Services and Sub-contracting Expense Agreement
“Continuing Connected Transactions”	Group 1 Transactions and Group 2 Transactions

“Design Service”	the handset and component design services provided by the Hon Hai Group to the Group pursuant to the framework design subcontracting service agreement entered into between the Company and Hon Hai on 20 September 2006
“Directors”	the directors of the Company
“Equipment Purchase Transaction”	purchase of equipment by the Group from the Hon Hai Group contemplated under the Framework Equipment Purchase Agreement (as amended by a supplemental agreement of the date of this announcement)
“Equipment Sales Transaction”	sale of equipment by the Group to the Hon Hai Group contemplated under the Framework Equipment Sale Agreement (as amended by a supplemental agreement of the date of this announcement)
“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 Group 1 Transactions and the relevant new annual caps for the three years ending 31 December 2010 in respect of the Group 1 Transactions
“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 Equipment Purchase Agreement”	the framework equipment purchase agreement entered into between the Company and Hon Hai on 18 January 2005 (as amended by a supplemental agreement dated 12 January 2006)
“Framework Equipment Sale Agreement”	the framework equipment sale agreement entered into between the Company and Hon Hai on 18 January 2005 (as amended by a supplemental agreement dated 12 January 2006)
“Framework Lease Agreement”	the framework lease agreement entered into between Shenzhen Futaihong and Hon Hai dated 18 January 2005 (as amended by (i) a supplemental agreement dated 12 January 2006 entered into between Shenzhen Futaihong and Hon Hai and (ii) a supplemental agreement dated 20 September 2006 entered into among the Company, Shenzhen Futaihong and Hon Hai) pursuant to which Hon Hai has agreed to lease premises owned by it or its subsidiaries and located worldwide to the Group from time to time as requested by the Group for a term up to 31 December 2007 upon and subject to the terms and conditions set out therein
“General Services Expense	the general services provided by the Hon Hai Group to the Group

“Transaction”	under the General Services Expense Agreement
“General Services Expense Agreement”	the general services agreement entered into between the Company and Hon Hai on 18 January 2005 (as amended by a supplemental agreement dated 12 January 2006) pursuant to which the Hon Hai Group has agreed to provide general services to the Group upon and subject to the terms and conditions set out therein
“General Services Income Transaction”	the general services to be provided by the Group to the Hon Hai Group from time to time during the period from 1 January 2008 to 31 December 2010 (both dates inclusive) pursuant to a framework general services agreement entered into between the Company and Hon Hai on the date of this announcement
“Group”	the Company and/or its subsidiaries (as the case may be)
“Group 1 Transactions”	the Purchase Transaction, the Product Sales Transaction, the General Services Expense Transaction and the Consolidated Services and Sub-contracting Expense Transaction
“Group 2 Transactions”	the Lease Expense Transaction, the Equipment Sales Transaction, the Equipment Purchase Transaction, the Sub-contracting Income Transaction, the Lease Income Transaction and the General Services Income Transaction
“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 Board Committee”	the independent board committee established to consider the Group 1 Transactions, the terms of the Supplemental Agreements and the Consolidated Services and Sub-contracting Expense Agreement respectively, and the proposed annual caps in respect of the Group 1 Transactions for the three years ending 31 December 2010
“Independent Shareholders”	the independent shareholders of the Company in respect of the Group 1 Transactions 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 Expense Transaction”	the lease of properties by the Group from the Hon Hai Group contemplated under the Framework Lease Agreement (as

	amended by a supplemental agreement of the date of this announcement)
“Lease Income Transaction”	the lease of the premises by the Group to the Hon Hai Group from time to time during the period from 1 January 2008 to 31 December 2010 (both dates inclusive) pursuant to a framework lease agreement entered into between the Company and Hon Hai on the date of this announcement.
“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
“PRC”	the People’s Republic of China
“Product Sales Agreement”	the framework product sales agreement entered into among the Company, Hon Hai and Innolux on 18 January 2005 (as amended by a supplemental agreement dated 28 February 2006)
“Product Sales Transaction”	sale of parts or products manufactured or owned by the Group to the Hon Hai Group contemplated under the Product Sales Agreement
“Purchase Agreement”	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)
“Purchase Transaction”	purchase of materials and components by the Group from the Hon Hai Group contemplated under the Purchase Agreement
“R&D Transaction”	the research and development services provided by the Hon Hai Group to the Group pursuant to the research and development services agreement entered into between Sutech Industry Inc. (a wholly-owned subsidiary of the Company) and PCE Industry Inc. (a subsidiary of Hon Hai) on 19 January 2005 (as amended by a supplemental agreement dated 12 January 2006 among Hon Hai, the Company, Sutech Industry Inc. and PCE Industry Inc.)
“Shares”	the ordinary shares of US\$0.04 each of the Company
“Shareholders”	the holders of the Shares
“Shenzhen Futaihong”	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

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Sub-contracting Expense Transaction”	certain services provided by the Hon Hai Group to the Group pursuant to the framework sub-contracting agreement entered into between the Company and Hon Hai on 18 January 2005 (as amended by a supplemental agreement dated 12 January 2006)
“Sub-contracting Income Agreement”	the framework sub-contracting agreement entered into between the Company and Hon Hai on 18 January 2005 (as amended by a supplemental agreement dated 12 January 2006)
“Sub-contracting Income Transaction”	the transactions contemplated under the Sub-contracting Income Agreement (as amended by a supplemental agreement of the date of this announcement)
“subsidiary”	having the meaning ascribed to it under the Companies Ordinance (Chapter 32 of the laws of Hong Kong)
“Supplemental Agreements”	the Supplemental Purchase Agreement, the Supplemental Product Sales Agreement and the Supplemental General Services Expense Agreement
“Supplemental General Services Expense Agreement”	the supplemental agreement conditional upon obtaining the Independent Shareholders’ approval entered into between the Company and Hon Hai on the date of this announcement to (among other things) extend the term of the General Services Expense Agreement to 31 December 2010
“Supplemental Product Sales Agreement”	the supplemental agreement conditional upon obtaining the Independent Shareholders’ approval entered into among the Company, Hon Hai and Innolux on the date of this announcement to (among other things) revise the pricing terms of the Product Sales Transaction and extend the term of the Product Sales Agreement to 31 December 2010
“Supplemental Purchase Agreement”	the supplemental agreement conditional upon obtaining the Independent Shareholders’ approval entered into among the Company, Hon Hai, Innolux and Foxconn Technology on the date of this announcement to (among other things) revise the pricing terms of the Purchase Transaction and extend the term of the Purchase Agreement to 31 December 2010
“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, Mao Yu Lang and Dr. Daniel J. Mehan.*

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

Hong Kong, 24 October 2007

\* for identification only