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## CONTINUING CONNECTED TRANSACTIONS

**Financial adviser**



**REORIENT Financial Markets Limited**

The Group has sold parts or other products manufactured or owned by it to the Hon Hai Group from time to time under the Product Sales Transaction pursuant to the Framework Product Sales Agreement for a term up to 31 December 2013. The Product Sales Transaction constitutes a continuing connected transaction for the Company and the Company has set the existing annual caps for the Product Sales Transaction for each of the three years ending 31 December 2013. It is anticipated that the existing annual cap for the Product Sales Transaction for 2013 may not be sufficient. The Company has therefore proposed a new annual cap for the Product Sales Transaction for the year ending 31 December 2013.

On 13 June 2013, the Company entered into the Framework Non-real Property Lease Expense Agreement with Hon Hai which will become effective only after obtaining the Independent Shareholders' approval, pursuant to which (among other things) the Group has agreed to lease the Non-real Properties from the Hon Hai Group from time to time for a period from the date of obtaining the Independent Shareholders' approval up to 31 December 2013 upon and subject to the terms and conditions set out therein.

Based on the proposed annual cap for the Product Sales Transaction for the year ending 31 December 2013, the relevant percentage ratios are more than 5% and the Product Sales Transaction constitutes a non-exempt continuing connected transaction for the Company under the Listing Rules and therefore the Product Sales Transaction and the relevant proposed annual cap for the year ending 31 December 2013 are subject to approval by the Independent Shareholders.

Based on the proposed annual cap for the Non-real Property Lease Expense Transaction for the year ending 31 December 2013, the relevant percentage ratios are more than 0.1% but less than 5%. In view of the connections between the Non-real Property Lease Expense Transaction and the Product Sales Transaction, the Non-real Property Lease Expense Transaction and the relevant proposed annual cap for the year ending 31 December 2013 are also subject to approval by the Independent Shareholders.

The Company will convene an extraordinary general meeting to seek the Independent Shareholders' approval for the Product Sales Transaction, the Non-real Property Lease Expense Transaction, the Framework Non-real Property Lease Expense Agreement and the Proposed Annual Caps. The Company has established the Independent Board Committee and has appointed the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard. A circular will be despatched to the Shareholders on or before 5 July 2013.

## 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 68.14% of the issued share capital of the Company.

The Framework Product Sales Agreement was entered into by the parties thereto in respect of the Product Sales Transaction for a term up to 31 December 2013. The Product Sales Transaction constitutes a continuing connected transaction for the Company and the Company has set the existing annual caps for the Product Sales Transaction for each of the three years ending 31 December 2013. Details of the Product Sales Transaction (including such existing annual caps) are set out in the Company's announcements dated 19 November 2010 and 8 July 2011.

On 13 June 2013, the Company entered into the Framework Non-real Property Lease Expense Agreement with Hon Hai which will become effective only after obtaining the Independent Shareholders' approval, pursuant to which (among other things) the Group has agreed to lease the Non-real Properties from the Hon Hai Group from time to time for a period from the date of obtaining Independent Shareholders' approval up to 31 December 2013 upon and subject to the terms and conditions set out therein.

## PRODUCT SALES TRANSACTION

Pursuant to the Framework Product Sales Agreement, the Company has agreed to sell or procure its subsidiaries to sell to the Hon Hai Group parts or other products manufactured or owned by the Group for a term up to 31 December 2013 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.

Payment for the Product Sales Transaction is usually received by the Group within 90 days after the date of the relevant invoice.

## **NON-REAL PROPERTY LEASE EXPENSE TRANSACTION**

Pursuant to the Framework Non-real Property Lease Expense Agreement, the rental payable by the Group under the Non-real Property Lease Expense Transaction shall be determined on a fair and reasonable basis with reference to the average market rental of other similar properties in the market. If the average market rental is not available, the rental payable under the Non-real Property Lease Expense Transaction shall be determined on a “cost plus” basis. If both the average market rental basis and the “cost-plus” basis are not appropriate or applicable, the rental payable under the Non-real Property Lease Expense Transaction shall be agreed between the relevant parties based on reasonable commercial principles.

The relevant parties may enter into a separate specific lease agreement for the relevant Non-real Property to be leased by the Group from the Hon Hai Group under the Non-real Property Lease Expense Transaction. Such specific lease agreement, containing terms and conditions consistent with the terms and conditions of the Framework Non-real Property Lease Expense Agreement, specifies in detail the term, rental and other terms and conditions governing the lease of such Non-real Property. The rental under the Non-real Property Lease Expense Transaction will be payable by the Group to the Hon Hai Group within such period(s) agreed by the relevant parties from time to time on a case-by-case basis and is expected to be usually payable within 90 days after the date of the relevant invoice or the Group’s accounting record posting date for the Non-real Property Lease Expense Transaction (as the case may be).

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

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

The Company considers it in its best interests to generate more income by carrying out the Product Sales Transaction in response to the Hon Hai Group’s needs from time to time, provided that the Hon Hai Group purchases from the Group at prices comparable to market prices and/or which are considered to be fair and reasonable to the Company.

### ***Non-real Property Lease Expense Transaction***

In carrying out the Product Sales Transaction and other manufacturing projects, the Group may require the use of the Non-real Properties including specialised equipment and machines. By leasing such Non-real Properties from the Hon Hai Group, the Group may gain access to the use of such Non-real Properties at rental rates agreeable to the Company saving capital expenditures.

## **HISTORICAL VALUE AND ANNUAL CAPS**

With reference to the Company’s announcements dated 19 November 2010 and 8 July 2011, the Company set the existing annual caps for the Product Sales Transaction for each of the three years ending 31 December 2013. In view of the Group’s production capabilities and expertise in handset manufacturing, it is anticipated that the Hon Hai Group will purchase additional products manufactured by the Group under the Product Sales Transaction pursuant to the Framework Product Sales Agreement. The Company considers that it is in its interest to utilise the Group’s available handset manufacturing capacities, expertise, resources and facilities to manufacture and sell additional products at prices agreeable to the Company thereby generating additional income for the Group. As such, the Company envisages that the existing annual cap for the Product Sales Transaction for 2013 may not be sufficient and has therefore proposed a new annual cap for the Product Sales Transaction for the year ending 31 December 2013.

The table below sets out the historical actual amounts of the Product Sales Transaction and the Proposed Annual Caps for the Product Sales Transaction and the Non-real Property Lease Expense Transaction respectively for the year ending 31 December 2013.

<i>(in US\$'000)</i>	<b>Actual transaction amounts</b>			<b>Annual cap</b>	
	For the year ended 31 December		For the four months ended	<b>for the year ending 31 December 2013</b>	
	2011 (audited)	2012 (audited)	30 April 2013 (unaudited)	Existing	Proposed
Product Sales Transaction	103,123	80,845	19,073	127,000	656,000
Non-real Property Lease Expense Transaction	-	-	-	-	13,000

The Proposed Annual Caps are determined with reference to projections of the Company which in turn are prepared by the Company mainly with reference to the following major factors:

*Product Sales Transaction*

- the audited actual amount of the Product Sales Transaction for the year ended 31 December 2012;
- the additional products which the Group may sell to the Hon Hai Group for 2013 as agreed between the parties having regard to the corresponding production plan for such additional products;

*Non-real Property Lease Expense Transaction*

- the corresponding Non-real Properties to be leased by the Group from the Hon Hai Group as agreed between the parties having regard to the manufacturing projects of the Group which may be carried out in 2013 and may require the leasing of the Non-real Properties from the Hon Hai Group; and

*Buffer*

- a buffer of 5%.

In view that the Non-real Property Lease Expense Transaction is a new continuing connected transaction for the Company, the Company will as appropriate enter into a supplemental agreement with Hon Hai to renew the Framework Non-real Property Lease Expense Agreement, set annual caps for the Non-real Property Lease Expense Transaction after 31 December 2013 and re-comply with the Listing Rules accordingly.

The Directors (excluding the independent non-executive Directors who will express their view after receiving advice from the Independent Financial Adviser) consider that the Proposed Annual Caps are fair and reasonable, and the respective terms of the Product Sales Transaction and the Non-real Property Lease Expense Transaction under the Framework Non-real Property Lease Expense Agreement are fair and reasonable, on normal commercial terms and in the interests of the Company and its Shareholders as a whole. In view of her relationship with Hon Hai, Dr. Lee Kuo Yu (being a non-executive Director) has abstained from voting on the Board's resolutions in relation to the Product Sales Transaction, the Non-real Property Lease Expense Transaction, the Framework Non-real Property Lease Expense Agreement and the Proposed Annual Caps.

## **LISTING RULES REQUIREMENTS**

Based on the proposed annual cap for the Product Sales Transaction for the year ending 31 December 2013, the relevant percentage ratios are more than 5% and the Product Sales Transaction constitutes a non-exempt continuing connected transaction for the Company under the Listing Rules and therefore the Product Sales Transaction and the relevant proposed annual cap for the year ending 31 December 2013 are subject to approval by the Independent Shareholders.

Based on the proposed annual cap for the Non-real Property Lease Expense Transaction for the year ending 31 December 2013, the relevant percentage ratios are more than 0.1% but less than 5%. In view of the connections between the Non-real Property Lease Expense Transaction and the Product Sales Transaction, the Non-real Property Lease Expense Transaction and the relevant proposed annual cap for the year ending 31 December 2013 are also subject to approval by the Independent Shareholders.

The Company will convene an extraordinary general meeting to seek the Independent Shareholders' approval for the Product Sales Transaction, the Non-real Property Lease Expense Transaction, the Framework Non-real Property Lease Expense Agreement and the Proposed Annual Caps. Hon Hai and its associates will abstain from voting on the resolutions to be proposed at the extraordinary general meeting for approving the above matters. The Independent Board Committee has been established to consider the Product Sales Transaction, the Non-real Property Lease Expense Transaction, the Framework Non-real Property Lease Expense Agreement and the Proposed Annual Caps. The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

A circular will be despatched to the Shareholders on or before 5 July 2013 setting out, among other things, details of the Product Sales Transaction, the Non-real Property Lease Expense Transaction, the Framework Non-real Property Lease Expense Agreement, the Proposed Annual Caps and the respective letters from the Independent Board Committee and the Independent Financial Adviser.

The Product Sales Transaction and the Non-real Property Lease Expense Transaction are also subject to the annual review requirements under Rules 14A.37 and 14A.38 of the Listing Rules.

## DEFINITIONS

“associate(s)”	having the meaning as defined in the Listing Rules
“Board”	the board of Directors
“Company”	Foxconn International Holdings Limited, a limited liability company incorporated in the Cayman Islands, the shares of which are listed on the Stock Exchange
“Directors”	the directors of the Company
“Framework Non-real Property Lease Expense Agreement”	the framework lease agreement relating to movable non-real properties entered into between the Company and Hon Hai on 13 June 2013 which will become effective only after obtaining the Independent Shareholders’ approval, pursuant to which (among other things) the Group has agreed to lease the Non-real Properties from the Hon Hai Group from time to time upon and subject to the terms and conditions set out therein
“Framework Product Sales Agreement”	the framework product sales agreement entered into among the Company, Hon Hai and Innolux Corporation (formerly known as Innolux Display Corporation and then Chimei Innolux Corporation) on 18 January 2005 (as amended by the respective supplemental agreements dated 28 February 2006, 24 October 2007 and 19 November 2010)
“Group”	the Company and/or its subsidiaries (as the case may be)
“Hon Hai”	鴻海精密工業股份有限公司 (Hon Hai Precision Industry Co. Ltd.*), 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 Product Sales Transaction, the Non-real Property Lease Expense Transaction, the Framework Non-real Property Lease Expense Agreement and the Proposed Annual Caps
“Independent Financial Adviser”	First Shanghai Capital Limited, which has been appointed by the Company to be the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Product Sales Transaction, the Non-real Property Lease Expense Transaction, the Framework Non-real Property Lease Expense Agreement and the Proposed Annual Caps
“Independent Shareholders”	Shareholders other than Hon Hai and its associates

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Non-real Properties”	movable non-real properties which include but not limited to equipment, machines, materials, gears, kits, apparatus and other movable assets
“Non-real Property Lease Expense Transaction”	the transactions contemplated under the Framework Non-real Property Lease Expense Agreement
“percentage ratios”	the percentage ratios calculated based on the requirements under Rule 14.07 of the Listing Rules
“Product Sales Transaction”	sale of parts or other products manufactured or owned by the Group to the Hon Hai Group as contemplated under the Framework Product Sales Agreement
“Proposed Annual Caps”	the proposed annual caps for the Product Sales Transaction and the Non-real Property Lease Expense Transaction respectively for the year ending 31 December 2013
“Shares”	the ordinary shares of US\$0.04 each of the Company
“Shareholders”	the holders of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	having the meaning ascribed to it under the Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
“US\$”	United States dollars, the lawful currency of the United States of America
“3C”	computer, communication and consumer electronics

By Order of the Board  
**Tong Wen-hsin**  
*Chairman*

Hong Kong, 13 June 2013

*As at the date of this announcement, the executive directors of the Company are Messrs. Tong Wen-hsin and Chih Yu Yang and Dr. Lee Jer Sheng, the non-executive director of the Company is Dr. Lee Kuo Yu and the independent non-executive directors of the Company are Messrs. Lau Siu Ki and Chen Fung Ming and Dr. Daniel Joseph Mehan.*

*\*for identification purposes only*