FIH®

Foxconn International Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 2038

2005 Annual Report

CONTENTS

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

CHIN Wai Leung, Samuel
(Chairman and Chief Executive Officer)
DAI Feng Shuh
(Chief Operating Officer)

NON-EXECUTIVE DIRECTORS

CHANG Ban Ja, Jimmy
GOU Hsiao Ling
LEE Jin Ming
LU Fang Ming

INDEPENDENT NON–EXECUTIVE DIRECTORS

LAU Siu Ki
Edward Fredrick PENSEL
MAO Yu Lang

COMPANY SECRETARY

TANG Wan Mui

REGISTERED OFFICE

Scotia Centre, 4th Floor
P.O. Box 2804, George Town
Grand Cayman, Cayman Islands

HEAD OFFICE

2, 2nd Donghuan Road
10th Yousong Industrial District
Longhua Town, Baoan
Shenzhen, Guangdong
the People's Republic of China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

16th Floor, Phase 1
Fountain Set Building
3A Hung Cheung Road
Tuen Mun
New Territories
Hong Kong

AUDITORS

Deloitte Touche Tohmatsu

LEGAL ADVISORS

Norton Rose

PRINCIPAL BANKER

ABN AMRO Bank N.V.
Agricultural Bank of China
Bank of America, N.A.
Bank of China
Bank SinoPac
China Construction Bank
Chinatrust Commercial Bank
Citibank N.A.
DBS Bank Ltd
Industrial and Commercial Bank of China
Standard Chartered Bank
Taipei Fubon Bank
Taishin International Bank

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Cayman) Limited
Butterfield House, 68 Fort Street
P.O. Box 705
George Town, Grand Cayman
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
46th Floor, Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

STOCK CODE

2038

CHAIRMAN'S STATEMENT

Dear Shareholders,

This past year has been marked by significant achievements and continued progress in every segment of our business. Our global management team is proud to be part of an organization that has produced another year of record-setting results, in revenue as well as in net profit, while becoming the largest handset manufacturing service provider in the world!

It is our pleasure to present to you the operating results of Foxconn International Holdings Limited ("FIH") for the year ended 31 December 2005.

Revenue for the year reached US$6,364 million, which represents an increase of US$3,056 million, approximately 92% over the prior year revenue of US$3,308 million. Net profit also reached a record high of US$386 million, representing an increase of approximately 113% over the prior year amount of US$181 million.

In 2005, we continued to execute our core strategies. We have strengthened and extended the end-to-end solution offering. At one end of the spectrum, via the Chi Mei Communication Systems, Inc. acquisition, we have upgraded our R&D capabilities to accommodate the ever-growing need for complete product design solutions. At the other end, we have established new facilities to support our customers' service and repair requirements.

Vertical integration and cost competitiveness, both trademarks of FIH's uniqueness, are critical in our customers' selection of a strategic manufacturing service provider. Here too, we have developed and invested in capabilities that have lengthened the "one stop shopping" list that we can offer to our customers to help them cope with the market's demand for more creative design. Our goal is to not only offer more, but to offer it faster.

The pursuit of operation excellence was also a major initiative for the past year and remains a constant driver for the entire management team. We have invested in resources and technologies that drive efficiency, yield, and productivity. Enhancements to our information system continued in order to support these efforts.

Globalization remains one of our growth drivers as our customers have expressed their need to be close to their end markets. In order to strengthen our competitive edge and to more closely align with our customers we have increased our investments and capacity in the BRIC countries (Brazil, Russia, India and China) that are expected to have significant market growth. Our expanded Hungary facility will support Russia.

CHAIRMAN'S STATEMENT

FIH's tremendous achievements in 2005 were accomplished in an environment of intense competition. For 2006, significant challenges remain. We are aware of increasing competition and complexity due to creative product designs and new technologies. However, we believe that the successes and the lessons learned in the past year put us in a unique position of expanding our market leadership. With the continued flawless execution of our strategies, coupled with the depth and breadth of FIH's solution offering to our customers, we have put ourselves in a position to be extremely excited for 2006, and beyond.

On behalf of the management team, I take this opportunity to express our gratitude to those that have made these achievements possible, including but not limited to: all members of the Board for their valuable input and critical analysis; all employees for their efforts and dedication; and the families of the employees for their patience and sacrifices.

FIH is fortunate to be partners with the best customers in the world. To make continued progress in every segment of our business considering the high requirements of these world class companies is a testament of FIH's strengths and capabilities. For this and for their full support, we are thankful to our customers and we are motivated to continue serving them in the best way possible.

Last but not least, on behalf of the Board, we would like to thank our shareholders for their continued support and confidence in management. We will do our utmost in maximizing the value of FIH.

Best regards,

Chin Wai Leung, Samuel
Chairman & Chief Executive Officer

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF RESULTS AND OPERATIONS

The year 2005 was another year of record-setting results for the Company, in revenue as well as in net profit. Revenue for the year reached US$6,364 million, which represents an increase of US$3,056 million, approximately 92% over the prior year revenue of US$3,308 million. Net profit also reached a record high of US$386 million, representing an increase of approximately 113% over the prior year amount of US$181million. Basic earnings per share for the period were US$5.64 cents.

In 2005, we saw good handset market growth as well as market share gains for our customers. Wireless hand-held device markets have shown increasing shipments and growth caused by the surging demand resulted from emerging markets consumer penetration and new handset features. The rising consumption power and the improved affordability of wireless services and products in the so-called BRIC (Brazil, Russia, India and China) countries have created significant demand for handsets. New handset features such as camera, MP3, email and PDA have accelerated consumers' replacement cycle for mobile phones. Together, these two main forces created good demand for our customers' products. Working with our customers to meet the increasing market demand, the Company also benefited from such a growth.

Despite a buoying handset market in 2005, competition was strong and customers' demand on quality and speed of our services remained high. The Company continued strengthening its leadership position in the intensely competitive environment through expanding the value-added and end-to-end solutions offered to customers. To execute this strategy effectively, the Company acquired Chi Mei Communication Systems, Inc. ("CMCS") with the intention to combine leading-edge R&D services with our powerful global manufacturing platform and unique mechanical component capabilities to create the best solution for our customers. Aiming to become a seamless part of our customers' global supply chain, the Company continued to provide co-location services to our strategic customers in key geographical areas. This is witnessed by our increased investments in some of the BRIC countries. To enhance our yields and enable our customers' state-of-the-art creative product designs, we also invested in certain key processing technologies. All these strategic investments were done with a view to further enhance partnership with customers in order to grow with them.

In 2005, the Company also focused on continuous improvement initiatives and IT system upgrades to enhance operation efficiency and impose tighter expenses and costs control. Tremendous efforts were devoted to enable the Company compete in a market with increasing pricing pressure. Vertical integration and component capability build-up were also the major tasks for the management, as these are key to our long-term sustainable competitiveness.

Looking forward, the Company is aware of increasing competition and complexity due to creative product designs and convergence of products and technologies. With the solid foundations, investments and experiences from the past, the management believes that the Company is well positioned to capture further growth opportunities and continue to perform well in the future.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2005, we had a cash balance of US$360 million. The cash balance is expected to finance our working capital and capital expenditure plans in light of our continuing fast growth. We had a net decrease in bank loans by US$462 million in 2005 by repayments with funds partially from initial public offering ("IPO") proceeds. Our gearing ratio, expressed as a percentage of interest bearing external borrowings of US$176 million over total assets of US$3,159 million, is 5.6%.

Net cash generated from operating activities in 2005 was US$236 million.

Net cash used in investing activities in 2005 was US$403 million. Our expenditures for investing activities were primarily for the merger and acquisition activities in purchasing the CMCS and purchase of property, plant and equipment related to our facilities in our major sites in Americas, Europe and Asia.

Net cash generated from financing activities in 2005 was US$17 million only, as proceeds of US$485 million from the issuance of shares was used to reduce bank loans by US$468 million in 2005.

PLEDGE OF ASSETS

As at the balance sheet date, the Group pledged property, plant and equipment having a net book value of approximately US$19.73 million (2004: US$41.11 million) to secure general banking facilities granted to the Group.

In addition, Foxconn Oy, a subsidiary of the Company, has pledged its trade receivables and inventories with floating charge to secure general banking facilities granted to it. The general banking facilities amounted to approximately US$47.33 million (2004: US$53.13 million). The bank facilities were unutilized as at 31 December 2005 and 2004.

CAPITAL COMMITMENTS

As at the balance sheet date, the capital commitment of the Group was US$17.37 million (2004: US$45.30 million).

SIGNIFICANT INVESTMENTS

In 2005, we had invested in our key sites in Americas, Europe and Asia to enhance our capabilities and capacities in various regions to serve our customers. These investments were proven successful in gaining more businesses and keep up the seamless working partnership with our key customers. We expect more of these investments will continue to be made by the Group in 2006.

MANAGEMENT DISCUSSION AND ANALYSIS

OUTLOOK

Looking beyond 2005, we are excited with the growth opportunities ahead of us. We believe that the handset outsourcing trend will continue to grow and we will be able to win more market shares and businesses from our customers.

We need to focus on effective execution of our business strategy, continuous improvement of our operations and selective investments in strategic areas that will contribute to our long-term prosperity. With the solid foundations, investments and experiences from the past, the management believes that we are well positioned to capture the growth of the industry and continue to perform well in the future.

EMPLOYEES

As at 31 December 2005, the Group had a total of 59,070 (2004: 32,060) employees. Total staff costs incurred during the year 2005 amounted to US$298.25 (2004: US$225.38) million. The Group offers a comprehensive remuneration policy which is reviewed by the management on a regular basis.

The Company has adopted a share scheme and a share option scheme, respectively. The share option scheme complies with the requirements of the rules of Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

CHIN Wai Leung, Samuel, aged 55, joined the Company as Chairman and Chief Executive Officer in July 2003. Mr. Chin joined Hon Hai Precision Industry Company Limited ("Hon Hai") , a company listed on Taiwan Stock Exchange Corporation and the ultimate controlling shareholder of the Company, and its subsidiaries ("Hon Hai Group") in 2000, and has been one of the principal managers responsible for the handset manufacturing services business of the Hon Hai Group since July 2000, which is now wholly-owned and operated by the Company. He is also a director of Success World Holdings Limited, Foxconn DK ApS, Foxconn Oy and FIH Co., Ltd.. Before joining the Company, Mr. Chin held senior executive positions in EFA Corporation, Atari Corporation, Commodore Electronics Limited with responsibilities ranging from sales and marketing, global procurement, manufacturing, pricing, purchasing, contract negotiation, accounting and finance. With over 20 years of marketing, sales and operational experience in the global computer and electronics industries, he has worked in an international environment. Mr. Chin was awarded a Juris Doctor degree from the University of Pennsylvania Law School in 1976 and a Bachelor of Science degree in Economics from Wharton School, University of Pennsylvania, US in 1973.

DAI Feng Shuh, aged 54, joined the Company as Chief Operating Officer in February 2004. Dr. Dai joined the Hon Hai Group in July 1997, and has been one of the principal managers responsible for the handset manufacturing services of the Hon Hai Group since March 2000, which is now wholly-owned and operated by the Company. He is also a director of three principal operating subsidiaries of the Company, Foxconn Precision Component (Beijing) Co., Ltd., Shenzhen Futaihong Precision Industrial Co., Ltd. and Honxun Electrical Industry (Hangzhou) Co., Ltd., as well as Success World Holdings Limited, S&B Industry Inc. and FIH Co., Ltd.. Before joining the Company, Dr. Dai was a general manager for PC Enclosure Group of Hon Hai and prior to that, he had held production engineering management positions with Toyota –Aisin Precision Instruments in Kentucky, the US, Thailand and Indonesia. With over 20 years of experience in production engineering and international business management, Dr. Dai has been instrumental in the growth of the Company since its inception. Dr. Dai received a Ph. D. in Mechanical Engineering from University of Tokyo, Japan in 1984.

CHANG Ban Ja, Jimmy, aged 62, joined the Company as a non-executive Director in December 2004. Mr. Chang is the executive vice president of Hon Hai following his assignments as the president of Foxconn Corporation in the US and managing director of Foxconn Singapore. Mr. Chang has been with Hon Hai since September 1989. He also spent over 30 years in internal audit, treasury, international investment analysis, controllership, sales and marketing functions. He had previously been associated with Arthur Young, Kaiser Aluminum & Chemical Corporation, Memorex and Atari Corporation. Mr. Chang obtained an MBA from Santa Clara University in the US in 1970.

GOU Hsiao Ling, aged 27, joined the Company as a non-executive Director in December 2004. Prior to taking up the directorship with the Company, Miss Gou was working for Hon Hai as a tax manager since September 2001. She was previously also a tax consultant at PricewaterhouseCoopers in Taipei, Taiwan and an analyst with Goldman Sachs International Limited and has over 3 years of experience in the finance industry. Miss Gou received a Bachelor 's degree in Economics from the University of California, Berkeley, US in 2001. Miss Gou is the daughter of Mr. Gou Tai Ming, the founder of Hon Hai. Mr. Gou is the present chairman of the board of directors and president of Hon Hai.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

LEE Jin Ming, aged 53, joined the Company as a non-executive Director in December 2004. He is also the chief accounting officer of Hon Hai. Prior to joining Hon Hai in October 1997, Mr. Lee was a senior financial manager with Philips and Chase Manhattan Bank. Mr. Lee has over 25 years of banking, corporate finance and accounting related international experience. Mr. Lee obtained a Bachelor of Arts degree from the National Chengchi University, Taiwan in 1974.

LU Fang Ming, aged 51, joined the Company as a non-executive Director in December 2004. He is also a director, an executive vice president and a general manager of Hon Hai since the intelligent hub and switch products ODM manufacturing company he founded was acquired by Hon Hai in May 2000. Prior to joining Hon Hai, he was a vice president and general manager at Cirrus Logic/Crystal Semiconductor in charge of its Asia Pacific operations. Prior to that, Mr. Lu spent 20 years with Hewlett-Packard in various positions including general manager of the HP Taiwan Computer System Group and QMS director of the HP Asia Pacific Test & Measurement Group. Mr. Lu graduated from the Chung-Yuan University, Taiwan in 1980.

LAU Siu Ki, aged 47, joined the Company as an independent non-executive Director in December 2004. With over 20 years of experience in corporate finance, financial advisory and management, accounting and auditing, Mr. Lau is currently a financial advisory consultant running his own management consultancy firm, Hin Yan Consultants Limited. He is also a consultant to the corporate finance division of PCP CPA Limited, a medium sized certified public accountant firm in Hong Kong. Previously Mr. Lau worked at Ernst &Young for over 15 years. He graduated from Hong Kong Polytechnic in 1981. Mr. Lau is a member of both the Association of Chartered Certified Accountants ("ACCA") and The Hong Kong Institute of Certified Public Accountants. Mr. Lau is now a member of the World Council of ACCA. He has served on the executive committee of the Hong Kong branch of ACCA ("ACCA Hong Kong ") since 1995, and was the chairman of ACCA Hong Kong in 2000/2001. During these years he has helped raising the profile of ACCA Hong Kong. Mr. Lau also serves as an independent non-executive director of certain other listed companies.

Edward Fredrick PENSEL, aged 53, joined as an independent non-executive Director in December 2004. Mr. Pensel has extensive background and over 20 years of experience in high technology industries. He retired from HP (Compaq) after serving 5 years as senior vice president of the supply chain. Prior to HP (Compaq) , he was a senior vice president of worldwide operations frameworks for Ingram Micro Inc. vice president of worldwide manufacturing operations for Data General Corporation and director of worldwide procurement for Apollo Computer Inc.. In addition, Mr. Pensel was with Nortel Networks Limited for 10 years, during which time the company grew from a US$4 billion company to a US$38 billion company.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

MAO Yu Lang, aged 62, joined the Company as an independent non-executive Director in December 2004. Since 1997, Mr. Mao has been the president and chief executive officer of Nortel Networks Greater China. He is also a global cabinet member of Nortel Networks Limited. Before joining Nortel Networks Limited, Mr. Mao was a president for the Greater China region at Alcatel, as well as president and chief executive officer of Alcatel Taisel, a joint venture between Alcatel and Chunghwa Telecom. Mr. Mao is also a director of Winbond Electronics Corp., which listed on the Taiwan Stock Exchange Corporation, and of Hurray! Holdings Co., Ltd., which listed at Nasdaq, the US respectively. He has over 30 years of experience in the electronics industry. Mr. Mao obtained both a Bachelor of Metallurgical Engineering degree and a Master of Engineering (Materials) degree from Cornell University in the US in 1966 and 1967 respectively. He also received a Degree of Master of Science in Management from Sloan School of Massachusetts Institute of Technology, US in 1972.

SENIOR MANAGEMENT

WU Koa Teh, Gordon, aged 58, joined the Company as senior vice president in July 2003, prior to that, he held vice president position in Hon Hai starting in October 1998, as one of the principal managers responsible for the handset manufacturing services business. He is also a special assistant to the chief executive officer of Hon Hai, responsible for establishing and developing new business. Mr. Wu has over 27 years of experience in the mechanical engineering field, with focus on the development of computer peripherals, and more than 14 years spent in the management of the desktop PC and PC notebook design. Before joining Hon Hai, Mr. Wu worked at Toshiba America Information System for 2 years, where he managed the research and development team to develop the first Desktop PC for Toshiba and earned the achievement award for the best design of the year during one of his years there. Prior to that, he spent 20 years with Digital Equipment Corporation, worked his way from design engineer to engineering manager throughout Asia and Europe. The last position he held in Digital was to start up a notebook research and development team and built the first under one inch thin and light PC notebook in the early nineties. Mr. Wu was awarded a Bachelor of Science in Industrial Engineering from Northeastern University.

CHEN Hsu Tang, Tom, aged 41, joined the Company as vice president, business development in July 2003 and has been one of the principal managers responsible for the handset manufacturing services business of the Hon Hai Group since October 2001 when he became a vice president of Hon Hai. He is also a director of Foxconn Mexico Precision Industry Co., S. A. de C. V., one of the Company's principal operating subsidiaries. Mr. Chen joined Hon Hai in December 2000. Mr. Chen has over 15 years of experience in engineering, sales and general management in the telecommunication and components industries. Previously, Mr. Chen was the director of supply chain at Axxion Group Corporation in Texas, US. He was also the founder and chief executive officer of Jefferson Rubber Technologies in Texas, US. He has also worked at International Business Machines Corporation in New York as a telecommunications engineer. Mr. Chen obtained a Master of Science degree in Industrial Engineering from Columbia University in 1991.

CHAO Shan Ping, Henry, aged 49, joined the Company as director of electronic parts production and assembly in June 2004 and has been one of the principal managers responsible for the handset manufacturing services business of the Hon Hai Group since March 2001 when he became a director in Foxconn Precision Component (Beijing) Co., Ltd.. He is also a director of the Company's principal operating subsidiary, and Honxun Electrical Industry (Hangzhou) Co., Ltd.. Before joining the Company, Mr. Chao was with Hon Hai since September 1996 and was responsible for SMT and computer motherboard manufacturing processes. Prior to that, Mr. Chao held various production and engineering management positions with Wang Computer and Delta Electronics. He has over 20 years of experience in engineering management. Mr. Chao received a Bachelor 's degree in Industrial Engineering from National Taipei University of Technology, Taiwan in 1978.

KO Ming Chung, aged 43, joined the Company as a director of mechanical production in June 2004 and has been one of the principal managers responsible for the handset manufacturing services business of the Hon Hai Group since July 2000. Mr. Ko has close to 20 years of mechanical engineering and production management experience. Before joining the Company, he was with Hon Hai since July 1992. Prior to that, Mr. Ko held various positions in mechanical engineering and production with Philips and Matsushita Electric (Taiwan) Co., Ltd.. Mr. Ko received a Master of Science degree in Mechanical Engineering from National Taiwan University, Taiwan in 1992.

Michael SMITH, aged 41, joined the Company as vice president, Mexico operations in May 2004. Mr. Smith has over 12 years of experience in the high technology electronics manufacturing industry. Prior to joining the Company, he worked in Motorola, Inc. for over 11 years in various paging and cellular phone new product introduction and manufacturing capacities. Most recently, he was the site director of the Chihuahua Plant which we acquired in December 2003. Mr. Smith is a member of senior management of Foxconn Mexico Precision Industry Co., S.A. de C.V., one of the principal operating subsidiaries of the Company, which owns and operates the Chihuahua Plant. Mr. Smith obtained a Master of Science degree in Electrical Engineering from the University of South Florida in Tampa, Florida, US in 1991.

Timo HARJU, aged 52, joined the Company as executive vice president and chief financial officer, European operations in October 2003 and has been one of the principal managers responsible for the handset manufacturing services business of the Hon Hai Group since then. Mr. Harju has over 20 years of executive experience in global multinational businesses in the area of general and financial management, acquisition and integration management and has held directorships with several international companies. Before joining the Company, he served as president and chief executive officer of Foxconn Oy in the mobile telecommunications industry. Prior to that, he held the position of vice president and regional director of Asia and South America of Ahlstrom Group, and was responsible for one of the Ahlstrom Group's global businesses for those regions. Mr. Harju had also served as vice president and chief financial officer of one of the global business groups of Ahlstrom Group being responsible for financial, strategic planning and information technology functions. Mr. Harju received a Master of Science degree from the University of Technology of Lappeenranta, Finland in 1981 and he also completed the International Executive Program at INSEAD, France in 1999.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

TSAU Li Ren, Aran, aged 52, joined the Company as director of human resources management in June 2004 and has been one of the principal managers responsible for the handset manufacturing services business of the Hon Hai Group since November 2001. Before joining the Company, Dr. Tsau joined Hon Hai in April 1997 and was responsible for connectors design and engineering analysis. He was also instrumental in the creation of product data system backbones as well as building the transceiver product design and manufacturing team. Prior to joining Hon Hai, Dr. Tsau was a professor of Department of Mechanical Engineering of Chung Cheng Institute of Technology, teaching courses such as CAD, CAM and computer-aided engineering. Dr. Tsau has over 26 years of experience and understanding of the product design and development process and production management. Dr. Tsau received a Ph. D. in Mechanical Engineering from the University of Minnesota, US in 1987.

HSU Chung Chang, Jonathan, aged 44, joined the Company as treasurer in June 2004 and has been one of the principal managers responsible for the handset manufacturing services business of the Hon Hai Group since October 2003. Mr. Hsu has over 15 years of experience working in finance related areas, and more than 7 years of experience in the area of electronic industry finance. Before joining the Company, he worked at Macronix International Co., Ltd. as treasury manager for about 5 years. Prior to that, he worked at Nikko Securities Co., Ltd. and served as assistant vice president of corporate finance for five years. Mr. Hsu obtained an MBA in Finance from George Washington University, US in 1993.

TONG Wen Hsin, Vincent, aged 40, joined the Company as director of investments and investor relations in July 2004. Mr. Tong has over 12 years of experience in the investment banking, finance and information technology fields. Before joining the Company, Mr. Tong worked at ABN AMRO Rothschild, where he was a director of the equity capital markets department, responsible for the underwriting of various equity and equity-linked issues of Asian corporate clients. Prior to that, he worked in the equity capital markets department of Jardine Fleming and Robert Fleming in Hong Kong and London, as well as in the marketing and sales departments of International Business Machines Corporation in Taiwan. Mr. Tong holds an MBA degree from London Business School, United Kingdom, which he obtained in 1995.

TAM Kam Wah, Danny, aged 42, is the Company's qualified accountant. He is also the chief accountant of the Company. Mr. Tam joined the Company as senior manager of financial control in October 2004. Mr. Tam has over 18 years of experience in accounting and finance in Hong Kong and US international companies. Prior to joining the Company, he worked as a financial controller for ITT Industries and Hutchison Harbour Ring Ltd. and he also worked as an accounting manager for Coates Brothers (HK) Co. Ltd.. Mr. Tam is a fellow of the Association of Chartered Certified Accountants, an associate of Chartered Institute of Management Accountants and an associate of Hong Kong Institute of Certified Public Accountants. Mr. Tam received an BBA from Chinese University of Hong Kong in 1988, a Master of Applied Finance from Macquarie University, Australia in 1994, an MBA from University of Ottawa, Canada in 1996, and a Master of Arts degree in Information System and a Master of Arts degree in Electronic Business from City University of Hong Kong in 1999 and 2002 respectively. Mr. Tam also received a Master of Accounting from Jinan University in 2005.

REPORT OF THE DIRECTORS

The Board of directors ("Board") of the Company is pleased to announce the audited consolidated results of the Company and its subsidiaries ("Group") for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of the principal subsidiaries are set out in the financial statements on pages 72 to 73. The Group is a vertically integrated manufacturing services provider for handset industry worldwide. It provides a full range of manufacturing services to its customers in connection with the production of handsets.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2005 are set out in the financial statements on page 23. The Board does not recommend the payment of any dividends in respect of the year ended 31 December 2005.

RESERVES

Movements in reserves of the Group during the year are set out on page 25.

DISTRIBUTABLE RESERVES

As at 31 December 2005, the Company's reserves available for distribution amounted to US$688,955,000.

SHARE CAPITAL

Details of the movements in the share capital during the year are set out in note 25 to the financial statements.

FINANCIAL SUMMARY

A financial summary of the results and the balance sheet of the Group for the last five financial years are set out on page 74.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the year are set out in note 15 to the financial statements.

BANK LOANS

Details of bank loans are set out in note 24 to the financial statements.

REPORT OF THE DIRECTORS

DIRECTORS

The directors of the Company during the year and up to the date of this report are:

Executive Directors

CHIN Wai Leung, Samuel
DAI Feng Shuh

Non-executive Directors

CHANG Ban Ja, Jimmy
GOU Hsiao Ling
LEE Jin Ming
LU Fang Ming

Independent non-executive Directors

LAU Siu Ki
Edward Fredrick PENSEL
MAO Yu Lang

Having received written confirmation from each of the independent non-executive directors of their independence pursuant to rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"), the Company considers each independent non-executive director to be independent.

Pursuant to article 112 of the articles of the association of the Company ("Articles"), one-third of the directors for the time being (or, if their number is not three or a multiple of three, then the number nearest to, but not exceeding one-third) shall retire from office by rotation at each annual general meeting of the Company provided that every director shall be subject to retirement by rotation at least once every three years. In accordance with article 112 of the Articles, Messrs. Chin Wai Leung, Samuel and Chang Ban Ja, Jimmy and Miss Gou Hsiao Ling will retire from office by rotation at the annual general meeting and, being eligible, will offer themselves for re-election.

SERVICE CONTRACTS

None of the directors of the Company has entered into a service contract with the Company which does not expire or which is not determinable by the Company within one year without payment of compensations, other than statutory compensations.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of or at any time during the year.

DISCLOSURE OF INTERESTS

Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 2005, the interests and short positions, if any, of each director and chief executive of the Company in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the directors and chief executives were taken or deemed to have under such provisions of the SFO) or which were required to be and are recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or as otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") adopted by the Company were as follows:

Name of director	Name of corporation	Capacity/ Nature of interest	Total number of ordinary shares	Approximate percentage of interest in the Company/ associated corporations
Chin Wai Leung, Samuel	Company	Personal Interest	24,221,275	0.348%
	Hon Hai	Personal Interest	82,892	0.002%
Dai Feng Shuh	Company	Personal Interest	24,221,275	0.348%
	Hon Hai	Personal Interest	367,530	0.009%
Chang Ban Ja, Jimmy	Hon Hai	Personal Interest	1,745,892	0.043%
Lee Jin Ming	Hon Hai	Personal Interest	927,830	0.023%
Lu Fang Ming	Hon Hai	Personal Interest	1,200,596	0.029%
Mao Yu Lang	Hon Hai	Personal Interest	552,399	0.013%

Save as disclosed above, none of the directors or the chief executives of the Company had, as at 31 December 2005, any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the directors and chief executives were taken or deemed to have under such provisions of the SFO) or which were recorded in the register required to be kept by the Company under Section 352 of the SFO or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares

So far as is known to any director of the Company, as at 31 December 2005, shareholders (other than the directors or the chief executives of the Company) who had interests and short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name	Capacity/ Nature of interest	Total number of ordinary shares	Approximate percentage of interest in the Company
Foxconn (Far East) Limited	Beneficial owner	5,081,034,525	73.07%
Hon Hai Precision Industry Company Limited[1]	Interest of a controlled corporation	5,081,034,525	73.07%

Note:

(1) Foxconn (Far East) Limited is a direct wholly-owned subsidiary of Hon Hai Precision Industry Company Limited ("Hon Hai"), therefore, Hon Hai is deemed or taken to be interested in the 5,081,034,525 shares which are beneficially owned by Foxconn (Far East) Limited for the purposes of the SFO.

Save as disclosed above, as at 31 December 2005, the Company had not been notified by any persons (other than the directors or the chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

CONTINUING CONNECTED TRANSACTIONS

During the year, the Company and its subsidiaries ("Group") entered into the following continuing connected transactions with Hon Hai, the Company's ultimate controlling shareholder, its subsidiaries or associates ("Hon Hai Group"):

1. Product sales transactions between the Group and the Hon Hai Group *(Note 1)*;

2. Lease transactions between the Group and the Hon Hai Group *(Note 2)*;

3. General services transactions between the Group and the Hon Hai Group *(Note 3)*;

4. Research and development services transactions between the Group and the Hon Hai Group *(Note 4)*;

5. Subcontracting transactions between the Group and the Hon Hai Group *(Note 5)*;

6. **Equipment sales and purchase transactions between the Group and the Hon Hai Group *(Note 6)*; and**

7. **Materials and components supply transactions between the Group and the Hon Hai Group *(Note 7)*.**

Notes

1. This refers to the sales of certain products to the Hon Hai Group pursuant to the framework product sales agreement dated 18 January 2005 and a supplemental agreement dated 28 February 2006. The total consideration for the year ended 31 December 2005 was US$74.944 million.

2. This refers to the properties leased from the Hon Hai Group pursuant to the framework lease agreement dated 18 January 2005 and a supplemental agreement dated 12 January 2006. The total consideration for the year ended 31 December 2005 was US$1.751 million.

3. This refers to the provision of utilities, support and other general services by the Hon Hai Group to the Group pursuant to the general services agreement dated 18 January 2005 and a supplemental agreement dated 12 January 2006. The total consideration for the year ended 31 December 2005 was US$14.956 million.

4. This refers to the provision of research and development services by the Hon Hai Group to the Group pursuant to the research and development agreement dated 19 January 2005 and a supplemental agreement dated 12 January 2006. The total consideration for the year ended 31 December 2005 was US$2.492 million.

5. This refers to subcontracting services providing to and provided by the Hon Hai Group pursuant to the framework subcontracting (income) agreement dated 18 January 2005 and a supplemental agreement dated 12 January 2006 and the framework subcontracting (expense) agreement dated 18 January 2005 and a supplemental agreement dated 12 January 2006. The total consideration for the year ended 31 December 2005 for subcontracting income and subcontracting expense was US$3.228 million and US$16.843 million respectively.

6. This refers to equipments purchased from and sold to the Hon Hai Group pursuant to the framework equipment purchase agreement dated 18 January 2005 and a supplemental agreement dated 12 January 2006 and the framework equipment sales agreement dated 18 January 2005 and a supplemental agreement dated 12 January 2006. The total consideration for the year ended 31 December 2005 for equipment purchase and equipment sale was US$17.398 million and US$8.839 million respectively.

7. This refers to the supply of materials and components by the Hon Hai Group pursuant to the framework materials and component agreement dated 19 January 2005 and a supplemental agreement dated 28 February 2006. The total consideration for the year ended 31 December 2005 was US$444.457 million.

Pursuant to Rule 14A.38 of the Listing Rules, the Board of Directors engaged the auditors of the Company to perform certain agreed upon procedures in respect of the transactions of the Group to assist the Directors to evaluate whether the transactions:

1. have received the approval from the Board of Directors;

2. were in accordance with the pricing policies of the Company where the transactions involve provision of goods and services by the Company;

3. have been entered into in accordance with the agreements governing the transactions; and

4. have not exceeded the caps disclosed in the relevant announcements.

The auditors of the Company have performed procedures in respect of the transactions in accordance with Hong Kong Standard on Related Services 4400 *Engagements to Perform Agreed Upon Procedures Regarding Financial Information.*

The auditors have reported their factual findings on these procedures to the Board of Director. The independent non-executive directors of the Company have reviewed the transactions and the findings and confirmed that the transactions are:

1. in the ordinary and usual course of business of the Company;

2. on normal commercial terms; and

3. in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

SHARE OPTION SCHEME AND SHARE SCHEME

A share option scheme ("Option Scheme") and a share scheme ("Share Scheme") were adopted by the Company on 12 January 2005.

Option Scheme

On 25 July 2005, the Company granted options to employees under the Option Scheme as below:

Outstanding at beginning of year	Date of grant during year	Granted during year	Vesting period	Exercise price	Exercised during year	Lapsed during year	Expired during year	Outstanding at end of year
0	25 July 2005	435,599,000	each year on 25 July from 2006 to 2011	HK$6.06	0	309,000	0	435,290,000
0		435,599,000			0	309,000	0	435,290,000

The closing price of the shares of the Company immediately before 25 July 2005, the date on which the options were granted, was HK$5.75.

Summary of Principal Terms of the Option Scheme

The purpose of the Option Scheme is to attract skilled and experienced personnel, to incentivize them to remain with the Group and to give effect to the Group's customer-focused corporate culture, and to motivate them to strive for the future development and expansion of the Group, by providing them with opportunities to acquire equity interests in the Company.

Subject to the terms of the Option Scheme, the Board may, at its absolute discretion, offer any employees, management members and directors of the Company, or any of its subsidiaries, and third party service providers including employees of Hon Hai and its subsidiaries, options to subscribe for shares on the terms set out in the Option Scheme.

The total number of shares in respect of which options may be granted under the Option Scheme shall be 683,940,002 shares, representing approximately 9.83% of the issued share capital of the Company as at the date of this annual report.

The total number of shares issued and to be issued upon exercise of options granted and to be granted to each grantee in any 12-month period up to the date of the latest grant shall not exceed 1% of the issued share capital of the Company from time to time.

The period within which the options must be exercised will be specified by the Board at the time of grant, and must expire no later than 10 years from the effective date of the Share Option Scheme. An offer of grant of an option must be accepted being a date not more than 30 days after the date of the offer. The amount payable on acceptance of an offer is HK$1.00.

The subscription price for shares shall be not less than the highest of: (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; and (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the shares.

Information on the Share Scheme

The Share Scheme is not subject to the provisions of Chapter 17 of the Listing Rules. The trustee for the Share Scheme may either subscribe for new shares at nominal value or purchase shares from the market in accordance with the terms of the Share Scheme.

At the forthcoming annual general meeting of the Company, an ordinary resolution will be proposed to grant a general mandate to the directors of the Company to allot and issue shares under the Share Scheme not exceeding 2% of the issued share capital of the Company as at the date of such meeting ("Scheme Mandate").

As at 11 April 2006, the issued share capital of the Company comprised 6,958,056,025 shares of US$0.04 each. Subject to the passing of the ordinary resolution approving the Scheme Mandate and on the basis that no further shares are issued or repurchased prior to the forthcoming annual general meeting, exercise in full of the proposed Scheme Mandate will result in 139,161,120 shares being allotted and issued under the Scheme Mandate. On the basis of the closing price of HK$16.3 per share as at 11 April 2006 and the Scheme Mandate being exercised in full, the aggregate market value of the 139,161,120 shares to be allotted and issued pursuant thereto would be approximately HK$2,268,326,256. The Company expects that the costs attributable to the grant of any shares under the Share Scheme will be accounted for by reference to the market value of such shares at the time of grant. The Company will give due consideration to any financial impact arising from the grant of shares under the Share Scheme before exercising the Scheme Mandate.

On 31 December 2005, the Company granted 3,273,000 award shares to 425 employees under the Share Scheme subject to lock-up periods of up to three years commencing from the date of grant, which will be vary from beneficiary to beneficiary.

Apart from the Option Scheme and the Share Scheme above, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of acquisitions of shares in, or debenture of, the Company or any other body corporate.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, sales to the Group's five largest customers accounted for approximately 95% of the Group's total sales for the year and sales to the Group's largest customer amounted to approximately 58%. Purchases from the Group's five largest suppliers accounted for approximately 86% of the total purchases for the year and purchase from the Group's largest supplier amounted to approximately 76%.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the issued share capital of the Company) had any interest in any of the Group's five largest customers and five largest suppliers.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

SUFFICIENCY OF PUBLIC FLOAT

As at the latest practical date prior to the issue of this annual report, to the best knowledge of the directors and based on the information publicly available to the Company, there is sufficient public float as required by the Listing Rules.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2005.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the memorandum and the articles of the association of the Company and the Companies Law of the Cayman Islands.

PENSION SCHEMES

Details of the Group's pension scheme and the basis of calculation are set out in note 35 to the financial statements.

AUDIT COMMITTEE

The Company has established an audit committee in accordance with the requirements of the Listing Rules and the Code on Corporate Governance Practices ("CCGP"). Its primary duties are to review and supervise the Company's financial reporting process and internal control system, nominate and monitor external auditors and provide advices and comments to the Board. The audit committee is comprised of three non-executive directors, two of whom are independent non-executive directors.

The audit committee has reviewed the audited financial statements of the Group for the year ended 31 December 2005.

CORPORATE GOVERNANCE

None of the directors of the Company is aware of information that would reasonably indicate that the Company is not, or was not for any part of the year covered by the annual report, in compliance with the CCGP as set out in Appendix 14 of the Listing Rules save as disclosed in the corporate governance report in this report.

AUDITORS

The financial statements have been audited by Deloitte Touche Tohmatsu who are due to retire and, being eligible, offer themselves for re-appointment as auditors of the Company.

On behalf of the Board
Chin Wai Leung, Samuel
Chairman and Chief Executive Officer

Hong Kong, 11 April 2006

Deloitte.
德勤

TO THE SHAREHOLDERS OF FOXCONN INTERNATIONAL HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Foxconn International Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") on pages 23 to 73 which have been prepared in accordance with International Financial Reporting Standards.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of consolidated financial statements which give a true and fair view. In preparing consolidated financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those consolidated financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the consolidated financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the consolidated financial statements, and of whether the accounting policies are appropriate to the circumstances of the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the consolidated financial statements are free from material misstatement. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2005 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

DELOITTE TOUCHE TOHMATSU
Certified Public Accountants
Hong Kong, 11 April 2006

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2005

	Notes	**2005** **US$'000**	2004 US$'000
Turnover	*6*	**6,364,497**	3,308,270
Cost of sales		**(5,783,942)**	(3,006,832)
Gross profit		**580,555**	301,438
Other income	*7*	**38,485**	60,231
Selling expenses		**(12,716)**	(9,321)
General and administrative expenses		**(133,543)**	(132,527)
Research and development expenses		**(30,419)**	(24,720)
Restructuring costs	*8*	**(9,203)**	–
Interest expenses on bank borrowings		**(13,901)**	(7,365)
Loss on disposal of subsidiaries	*29*	**–**	(605)
Profit before tax	*9*	**419,258**	187,131
Income tax expense	*12*	**(36,324)**	(5,812)
Profit after tax		**382,934**	181,319
Attributable to:			
Equity holders of the parent		**385,699**	181,319
Minority interests		**(2,765)**	–
		382,934	181,319
Earnings per share	*14*		
Basic		**US5.64 cents**	US3.44 cents
Diluted		**US5.62 cents**	N/A

CONSOLIDATED BALANCE SHEET

As at 31 December 2005

	Notes	2005 US$'000	2004 US$'000
Non-current assets			
Property, plant and equipment	15	**661,792**	421,673
Prepaid lease payments	16	**6,306**	2,972
Available-for-sale investments	17	**1,028**	138
Goodwill	18	**63,075**	–
Deferred tax assets	19	**10,094**	2,643
Deposits for acquisition of property, plant and equipment		**22,263**	20,186
		764,558	447,612
Current assets			
Inventories	20	**513,999**	480,193
Investments held for trading	21	**7,193**	–
Trade and other receivables	22	**1,512,849**	692,333
Bank balances and cash	30	**359,948**	499,426
		2,393,989	1,671,952
Current liabilities			
Trade and other payables	23	**1,408,740**	846,355
Bank loans – amount due within one year	24	**175,548**	633,956
Provision	31	**23,635**	–
Tax payable		**20,856**	2,651
		1,628,779	1,482,962
Net current assets		**765,210**	188,990
		1,529,768	636,602
Capital and reserves			
Share capital	25	**278,137**	238,800
Reserves		**1,236,833**	392,009
Equity attributable to equity holders of the parent		**1,514,970**	630,809
Minority interests		**12,047**	–
Total equity		**1,527,017**	630,809
Non-current liabilities			
Bank loans – amount due after one year	24	**–**	3,560
Deferred tax liabilities	19	**2,751**	2,233
		2,751	5,793
		1,529,768	636,602

The consolidated financial statements on pages 23 to 73 were approved and authorised for issue by the Board of Directors on 11 April 2006 and are signed on its behalf by:

DAI FENG SHUH	CHIN WAI LEUNG, SAMUEL
DIRECTOR	DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2005

	Attributable to equity holders of the parent										
	Share capital US$'000 *(Note)*	Share premium US$'000	Subscription monies US$'000 *(Note 25)*	Special reserve US$'000 *(Note 26)*	Legal reserve US$'000 *(Note 26)*	Translation reserve US$'000	Share compensation reserve US$'000	Retained profits US$'000	Total US$'000	Minority interests US$'000	Total US$'000
Balance at 1 January 2004	51,234	–	–	–	12,302	8,134	–	127,405	199,075	–	199,075
Profit for the year	–	–	–	–	–	–	–	181,319	181,319	–	181,319
Exchange differences arising on translation of foreign operations recognised directly in equity	–	–	–	–	–	14,335	–	–	14,335	–	14,335
Total recognised income for the year	–	–	–	–	–	14,335	–	181,319	195,654	–	195,654
Issue of shares by Grand Champion Trading Limited and Wide-Ranging Investments Limited	3,080	–	–	–	–	–	–	–	3,080	–	3,080
Issue of shares by the Company	35,143	197,857	–	–	–	–	–	–	233,000	–	233,000
Group Reorganisation *(Note 1)*	(15,514)	–	–	15,514	–	–	–	–	–	–	–
Capitalisation issue of shares	164,857	(67,877)	–	–	–	–	–	(96,980)	–	–	–
Profit appropriations	–	–	–	–	11,377	–	–	(11,377)	–	–	–
Balance at 31 December 2004	238,800	129,980	–	15,514	23,679	22,469	–	200,367	630,809	–	630,809
Profit for the year	–	–	–	–	–	–	–	385,699	385,699	(2,765)	382,934
Exchange differences arising on translation of foreign operations recognised directly in equity	–	–	–	–	–	(6,624)	–	–	(6,624)	–	(6,624)
Total recognised income for the year	–	–	–	–	–	(6,624)	–	385,699	379,075	(2,765)	376,310
Issue of new shares *(Note 25)*	39,337	455,265	–	–	–	–	–	–	494,602	–	494,602
Subscription monies received for Shares to be issued	–	–	7,480	–	–	–	–	–	7,480	–	7,480
Share issue expenses	–	(17,072)	–	–	–	–	–	–	(17,072)	–	(17,072)
Acquisition of a subsidiary *(Note 28)*	–	–	–	–	–	–	–	–	–	25,389	25,389
Acquisition of additional interest in a subsidiary	–	–	–	–	–	–	–	–	–	(10,577)	(10,577)
Profit appropriations	–	–	–	–	49,477	–	–	(49,477)	–	–	–
Recognition of equity-settled share based payment	–	–	–	–	–	–	20,076	–	20,076	–	20,076
Balance at 31 December 2005	278,137	568,173	7,480	15,514	73,156	15,845	20,076	536,589	1,514,970	12,047	1,527,017

Note: The share capital of the Group as at 1 January 2004 represents the aggregate of share capital of the Company, Grand Champion Trading Limited and Wide-Ranging Investments Limited which became the Company's wholly-owned subsidiaries pursuant to the Group Reorganisation *(see note 1)*.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2005

	Notes	2005 US$'000	2004 US$'000
OPERATING ACTIVITIES			
Profit before tax		**419,258**	187,131
Adjustments for:			
Interest expense		**13,901**	7,365
Loss on disposal of subsidiaries		**–**	605
Depreciation and amortisation		**72,566**	47,923
Interest income		**(8,889)**	(5,832)
Impairment loss for property, plant and equipment		**7,966**	2,843
Allowances for doubtful debts		**852**	237
Write down of inventories		**20,328**	1,627
Loss (gain) on disposal of property, plant and equipment		**244**	(6,074)
Impairment loss in respect of goodwill on acquisition of additional interest in a subsidiary		**–**	1,403
Share-based payment expense		**20,076**	–
Increase in fair value of investments held for trading		**(45)**	–
Gain on disposal of investments held for trading		**(84)**	–
Increase in provision		**22,068**	–
Operating cash flows before movements in working capital		**568,241**	237,228
Increase in inventories		**(36,981)**	(269,111)
Increase in trade and other receivables		**(805,453)**	(375,837)
Increase in trade and other payables		**542,345**	209,479
Utilisation of provision		**(4,199)**	–
Cash generated from (used in) operations		**263,953**	(198,241)
Interest paid		**(13,901)**	(7,365)
Interest received		**8,889**	5,832
Income taxes paid		**(23,243)**	(7,695)
NET CASH FROM (USED IN) OPERATING ACTIVITIES		**235,698**	(207,469)
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(314,187)**	(225,133)
Prepaid lease payments made		**(3,342)**	(2,439)
Purchase of investments held for trading		**(9,440)**	–
Acquisition of subsidiaries	*28*	**(74,741)**	(1,948)
Acquisition of additional interest in subsidiaries		**(27,183)**	(3,503)
Proceeds on disposal of property, plant and equipment		**15,646**	28,839
Proceeds from disposal of investments held for trading		**15,052**	–
Disposal of subsidiaries	*29*	**–**	1,832
Increase in bank deposits for investing purpose		**(4,546)**	(44,379)
NET CASH USED IN INVESTING ACTIVITIES		**(402,741)**	(246,731)

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2005

	2005 US$'000	2004 US$'000
FINANCING ACTIVITIES		
Proceeds from issue of shares	**502,082**	236,080
Share issue expenses	**(17,072)**	–
Decrease in loans from related parties	**–**	(74,253)
Bank loans raised	**1,345,733**	1,021,208
Bank loans repaid	**(1,813,666)**	(549,215)
NET CASH FROM FINANCING ACTIVITIES	**17,077**	633,820
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(149,966)**	179,620
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**455,047**	272,850
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**5,942**	2,577
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	**311,023**	455,047
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	**359,948**	499,426
Less: Bank deposits for investing purpose	**(48,925)**	(44,379)
	311,023	455,047

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2005

1. REORGANISATION AND BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 8 February 2000 under the Companies Law of the Cayman Islands. The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 3 February 2005. The Company's parent is Foxconn (Far East) Limited (incorporated in the Cayman Islands) and its ultimate holding company is Hon Hai Precision Industry Company Limited ("Hon Hai") (incorporated in Taiwan and its shares are listed on the Taiwan Stock Exchange). The addresses of the registered office and principal place of business of the Company are disclosed in the section headed "Corporate Information" to the annual report.

The Company and its subsidiaries (hereinafter collectively referred to as the "Group") are principally engaged in the manufacture of complete mobile phone handset systems and modules for mobile phone handsets.

In preparing for the listing of the Company's shares on the Stock Exchange, the Company entered into an agreement with Foxconn (Far East) Limited in respect of the sale and purchase of shares in Grand Champion Trading Limited ("Grand Champion") and Wide Ranging Investments Limited ("Wide-Ranging") on 22 March 2004. Pursuant to the agreement, the Company agreed to allot and issue one share to Foxconn (Far East) Limited for the consideration of 4,330,591 ordinary shares in Grand Champion and 11,184,000 ordinary shares in Wide-Ranging ("Group Reorganisation"). Pursuant to the Group Reorganisation, the Company became the holding company of all the handset manufacturing and sales operations of Hon Hai and the Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the consolidated financial statements for the year ended 31 December 2004 have been prepared using the principle of merger accounting in a manner consistent with pooling of interest.

The consolidated financial statements are presented in United States Dollars ("US$") as entities within the Group have different functional currencies. US$ is also the functional currency of the Company.

2. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new International Financial Reporting Standards (IFRSs), International Accounting Standards (IASs) and Interpretations (hereinafter collectively referred to as "new IFRSs") issued by the International Accounting Standards Board ("IASB") that are effective for accounting periods beginning on or after 1 January 2005. The application of the new IFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests has been changed. The changes in presentation have been applied retrospectively. The adoption of the new IFRSs has had no material effect on how the results for the current or prior accounting years are prepared and presented. Accordingly, no prior year adjustment has been required. The impact of these changes in accounting policies is discussed in details as below.

2. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS *(Continued)*

Share-based payments

In the current year, the Group has applied IFRS 2 *Share-based Payment* which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of IFRS 2 on the Group is in relation to the expensing of the fair value of directors' and employees' share options and ordinary shares of the Company determined at the date of grant of the share options and ordinary shares over the vesting period. The Group has applied IFRS 2 to share options and ordinary shares granted on or after 1 January 2005. The relevant transitional provisions require IFRS 2 to be retrospectively applied to share options that were granted after 7 November 2002 and had not yet vested on 1 January 2005. The amounts charged to consolidated income statement for the year ended 31 December 2005 included cost of sales of US$13,684,000, general and administrative expense of US$2,359,000, research and development expense of US$3,903,000, selling expense of US$130,000, and the aggregate amount of US$20,076,000 was included as share compensation reserve as at 31 December 2005.

At the date of authorisation of these consolidated financial statements, the following new IFRS, amendments and interpretations were in issue but not yet effective:

IAS 1 (Amendment)	Capital Disclosures[1]
IAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures[2]
IAS 21 (Amendment)	Net Investment in a Foreign Operation[2]
IAS 39 (Amendment)	Cash Flow Hedges of Forecast Intragroup Transactions[2]
IAS 39 (Amendment)	The Fair Value Option[2]
IAS 39 and IFRS 4 (Amendments)	Financial Guarantee Contracts[2]
IFRS 6	Exploration for and Evaluation of Mineral Resources[2]
IFRS 7	Financial Instruments: Disclosures[1]
IFRIC 4	Determining whether an Arrangement contains a Lease[2]
IFRIC 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds[2]
IFRIC 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment[3]
IFRIC 7	Applying the Restatement Approach under IAS 29 *Financial Reporting in Hyperinflationary Economies*[4]
IFRIC 8	Scope of IFRS 2[5]
IFRIC 9	Reassessment of Embedded Derivatives[6]

[1] Effective for annual periods beginning on or after 1 January 2007
[2] Effective for annual periods beginning on or after 1 January 2006
[3] Effective for annual periods beginning on or after 1 December 2005
[4] Effective for annual periods beginning on or after 1 March 2006
[5] Effective for annual periods beginning on or after 1 May 2006
[6] Effective for annual periods beginning on or after 1 June 2006

2. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS *(Continued)*

The directors anticipate that the adoption of these IFRSs, amendments and interpretations in future periods will have no material impact on the consolidated financial statements of the Group.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair values as explained in the accounting policies set out below. The consolidated financial statements have been prepared in accordance with IFRSs and the principal accounting policies adopted are set out below. The consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Acquisition of additional interests in subsidiaries are recorded at historical cost and the excess of the cost of acquisition over the carrying amounts of net assets acquired is recognised as goodwill.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 *Business Combinations* are recognised at fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-Current Assets Held for Sale and Discontinued Operations*, which are recognised and measured at fair value less costs to sell.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Goodwill

Goodwill arising on an acquisition of a subsidiary for which the agreement date is on or after 31 March 2004 represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.

Sales of goods are recognised when goods are delivered and title has passed.

Service income is recognised when services are provided.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial assets to that asset's net carrying amount.

Dividend income from investments is recognised when the Group's rights to receive payment have been established.

Leasing

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the lessees.

All other leases are classified as operating leases and the annual rentals are charged to the income statement on a straight-line basis over the relevant lease term. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. US$) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Borrowing costs

All borrowing costs are recognised in the income statement in the period in which they are incurred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Retirement benefit costs

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses which exceed 10% of the greater of the present value of the Group's pension obligations and the fair value of plan assets are amortised over the expected average remaining working lives of the participating employees. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the amended benefits become vested. Any asset resulting from this calculation is limited to unrecognised actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

The amount recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service cost, and as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to unrecognised actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less depreciation and any identified impairment loss at the balance sheet date.

Construction in progress is stated at cost which includes all construction costs less accumulated impairment losses. It is not depreciated until completion of construction. The cost of completed construction work is transferred to the appropriate category of property, plant and equipment. Depreciation of these assets, on the same basis as other property, plant and equipment, commences when the assets are ready for their intended use.

Depreciation is provided to write off the cost of other property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is dereognised.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight line basis over its useful life, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment losses (other than goodwill and available-for-sale investments)

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out basis.

Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated at fair value through profit or loss on initial recognition. The Group's certain investments are classified as investments held for trading. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial assets *(Continued)*

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade receivables, other receivables and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as any of the other categories set out above. For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and are subject to an insignificant risk of changes in value.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial liabilities and equity *(Continued)*

Financial liabilities

Financial liabilities including bank loans, trade payables and other payables are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derivatives

Derivatives that do not qualify for hedge accounting are deemed as financial assets held for trading or financial liabilities held for trading. Changes in fair values of such derivatives are recognised directly in profit or loss.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

For financial liabilities, they are removed from the Group's balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expires). The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in profit or loss.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Equity-settled share-based payment transactions

For share options or ordinary shares of the Company granted to employees of the Group, the fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period or recognised as an expense in full at the grant date when the share options or ordinary shares granted vest immediately, with a corresponding increase in equity (share compensation reserve).

At the time when the share options are exercised, the amount previously recognised in share compensation reserve will be transferred to share premium. When the share options are forfeited after vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will continue to be held in share compensation reserve.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The management had made the following estimates and assumptions in the process of applying the Group's accounting policies, which are described in note 3, that have a significant risk of causing a material adjustment to the carrying amounts of the assets and liabilities as discussed below.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. In May 2005, the Company acquired Chi Mei Communication Systems, Inc. ("CMCS"), a company which specialises in ODM business, and the carrying amount of goodwill at the balance sheet date was US$63,075,000. At the end of 2005, the Group appointed a professional valuer to perform an appraisal of the value in use of CMCS. Details of the impairment testing are provided in note 18.

Provision

Provision has been made for value-added costs to repair or replace defective goods, such as labour (whether incurred internal or external) and material costs, and also costs that may not be recoverable from suppliers for the rework, either in accordance with contractual terms or the Group's policy. The provision requires the management to estimate the extent of repairs and replacements with reference to past experience and technology needs. The estimation may be adversely affected by many factors, including additional variations to the plans requested by the customers or because of technical needs, and unforeseen problems and circumstances. Any of these factors may affect the extent of repair or replacement required and therefore ultimate repair and replacement costs to be incurred in the future period.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include investments held for trading, bank loans, trade and other receivables and trade and other payable. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies applied by the Group to mitigate these risks are set out below. Management monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31 December 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. A major portion of the Group's trade debts are receivable from industry leaders or multinational customers with solid financial background. Meanwhile, in order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and monitoring procedures to ensure that follow-up action is taken to recover overdue debts. The Group also request for adequate collateral as considered necessary. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Credit risk in mobile phone handset industry is concentrated as the customers are the few global handset manufacturers. However, with the strong financial background and good creditability of the global handset manufacturers, the management considers there is no significant credit risk.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Currency risk

Certain subsidiaries of the Company transact in foreign currencies, which expose the Group to foreign currency risk. In order to mitigate the foreign currency risk, the Group manages its foreign currency exposure by non-financial techniques such as managing the transaction currency, and leading and lagging payments and receivable management. In addition, the Group sometimes raised bank loans in various foreign currencies and enters into short-term foreign currency forward contracts (less than three months) for hedging purpose. Currently the Group does not designate its foreign currency forward contracts denominated debt as a hedging instrument for the purpose of hedging the currency risk of its foreign operations. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

Interest rate risk

In the past, the Group had applied interest rate swaps to manage its exposure to interest rate fluctuations on its long-term bank borrowings. Currently, a majority of the Group's borrowings are raised on short term basis and therefore the related cash flow and fair value interest rate risk is considered low. No additional derivatives were used during the current year for hedging short-term interest rate exposure other than those existing derivatives.

6. BUSINESS AND GEOGRAPHICAL SEGMENTS

The Group's turnover and profit are entirely derived from the end-to-end handset manufacturing service to the customers. The directors consider that these activities constitute one business segment since these activities are related and are subject to common risks and returns.

Segment information regarding the Group's sales by geographical market, irrespective of the origin of the goods/services, and other analysis by geographical area is presented below.

INCOME STATEMENT

	Year ended 31 December 2005			
	Asia US$'000	Europe US$'000	America US$'000	Consolidated US$'000
TURNOVER				
External sales	3,276,160	1,012,050	2,076,287	6,364,497
RESULTS	282,698	94,247	181,691	558,636
Unallocated corporate income				38,485
Unallocated corporate expenses				(163,962)
Unallocated interest expense on bank borrowings				(13,901)
Profit before tax				419,258
Income tax expense				(36,324)
Profit for the year				382,934

6. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

	Year ended 31 December 2004			
	Asia	Europe	America	Consolidated
	US$'000	US$'000	US$'000	US$'000
TURNOVER				
External sales	1,217,527	351,773	1,738,970	3,308,270
RESULTS	130,363	34,529	127,225	292,117
Unallocated corporate income				60,231
Unallocated corporate expenses				(157,247)
Unallocated interest expense on bank borrowings				(7,365)
Loss on disposal of subsidiaries				(605)
Profit before tax				187,131
Income tax expense				(5,812)
Profit for the year				181,319

Segment information regarding the Group's assets and liabilities by locations of customers are as follows:

BALANCE SHEET

	As at 31 December 2005			
	Asia	**Europe**	**America**	**Consolidated**
	US$'000	**US$'000**	**US$'000**	**US$'000**
ASSETS				
Segment assets	**847,318**	**435,307**	**596,338**	**1,878,963**
Unallocated corporate assets				**1,279,584**
Consolidated total assets				**3,158,547**
LIABILITIES				
Segment liabilities	**–**	**100,181**	**144,272**	**244,453**
Unallocated corporate liabilities				**1,387,077**
Consolidated total liabilities				**1,631,530**

For the year ended 31 December 2005

6. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

	As at 31 December 2004			
	Asia	Europe	America	Consolidated
	US$'000	US$'000	US$'000	US$'000
ASSETS				
Segment assets	208,718	330,965	827,295	1,366,978
Unallocated corporate assets				752,586
Consolidated total assets				2,119,564
LIABILITIES				
Segment liabilities	–	105,353	303,366	408,719
Unallocated corporate liabilities				1,080,036
Consolidated total liabilities				1,488,755

OTHER INFORMATION

	Year ended 31 December 2005				
	Asia	**Europe**	**America**	**Corporate**	**Consolidated**
	US$'000	**US$'000**	**US$'000**	**US$'000**	**US$'000**
Capital additions	**–**	**66,185**	**38,458**	**236,842**	**341,485**
Depreciation and amortisation	**–**	**15,898**	**12,941**	**43,595**	**72,434**
Impairment losses on property, plant and equipment	**–**	**7,966**	**–**	**–**	**7,966**
Gain (loss) on disposal of property, plant and equipment	**–**	**–**	**–**	**244**	**244**
Allowances for doubtful debts	**688**	**230**	**(66)**	**–**	**852**
Write down of inventories	**–**	**3,447**	**–**	**16,881**	**20,328**

6. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

	Year ended 31 December 2004				
	Asia US$'000	Europe US$'000	America US$'000	Corporate US$'000	Consolidated US$'000
Capital additions	–	37,947	28,863	161,785	228,595
Depreciation and amortisation	–	8,746	12,195	26,916	47,857
Impairment losses on property, plant and equipment	–	–	1,629	1,214	2,843
Gain (loss) on disposal of property, plant and equipment	–	3,967	2,146	(39)	6,074
Allowances for doubtful debts	–	–	445	(208)	237
Write down of inventories	–	582	836	209	1,627

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment and intangible assets, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets as at 31 December		**Additions to property, plant and equipment for the year ended 31 December**	
	2005 US$'000	2004 US$'000	**2005 US$'000**	2004 US$'000
Asia	**1,559,763**	999,697	**236,842**	161,785
Europe	**333,563**	305,453	**66,185**	37,947
America	**1,255,127**	811,771	**38,458**	28,863
	3,148,453	2,116,921	**341,485**	228,595

7. OTHER INCOME

An analysis of the Group's other income is as follows:

	2005	2004
	US$'000	US$'000
Interest on bank deposits	**8,889**	5,832
Gain on disposal of property, plant and equipment	**–**	6,074
Service and subcontracting income	**8,691**	14,162
Sales of materials, scraps and moldings	**17,618**	28,558
Others	**3,287**	5,605
	38,485	60,231

8. RESTRUCTURING COSTS

	2005	2004
	US$'000	US$'000
Impairment losses on property, plant and equipment	**6,230**	–
Redundancy costs	**2,973**	–
	9,203	–

The amount represents those costs incurred and provision made in connection with the Group's restructuring and relocating its Finnish and Danish operations during the year ended 31 December 2005.

9. PROFIT BEFORE TAX

	2005	2004
	US$'000	US$'000
Profit before tax has been arrived at after charging (crediting):		
Allowance for doubtful debts	**852**	237
Write down of inventories	**20,328**	1,627
Amortisation of prepaid lease payments (included in general and administrative expense)	**132**	66
Auditors' remuneration	**550**	430
Cost of inventories recognised as expense	**5,761,874**	3,006,832
Depreciation of property, plant and equipment	**72,434**	47,857
Impairment losses on property, plant and equipment	**7,966**	2,843
Impairment losses on goodwill on acquisition of additional interest in a subsidiary	**–**	1,403
Net foreign exchange loss	**5,826**	5,126
Increase in fair value of investments held for trading	**45**	–
Staff costs		
Directors' remuneration	**1,457**	1,197
Retirement benefit scheme contributions (excluding directors)	**17,710**	10,982
Other staff costs	**279,083**	213,204
	298,250	225,383
Loss (gain) on disposal of property, plant and equipment	**244**	(6,074)
Gain on disposal of investments held for trading	**84**	–

10. DIRECTORS' REMUNERATION

The emoluments paid or payable to each of the nine (2004: nine) directors were as follows:

		Other emoluments			
	Fees	Basic salaries and allowances	Performance related incentive payments	Retirement benefit scheme contributions	Total 2005
	US$'000	US$'000	US$'000	US$'000	US$'000
Mr. Chin Wai Leung, Samuel	–	1,200	–	–	1,200
Mr. Dai Feng Shuh	–	180	–	–	180
Mr. Chang Ban Ja, Jimmy	–	–	–	–	–
Miss. Gou Hsiao Ling	–	–	–	–	–
Mr. Lee Jin Ming	–	–	–	–	–
Mr. Lu Fang Ming	–	–	–	–	–
Mr. Lau Siu Ki	23	8	–	–	31
Mr. Edward Fredrick Pensel	23	–	–	–	23
Mr. Mao Yu Lang	23	–	–	–	23
	69	1,388	–	–	1,457

		Other emoluments			
	Fees	Basic salaries and allowances	Performance related incentive payments	Retirement benefit scheme contributions	Total 2004
	US$'000	US$'000	US$'000	US$'000	US$'000
Mr. Chin Wai Leung, Samuel	–	180	1,000	–	1,180
Mr. Dai Feng Shuh	–	10	–	–	10
Mr. Chang Ban Ja, Jimmy	–	–	–	–	–
Miss. Gou Hsiao Ling	–	–	–	–	–
Mr. Lee Jin Ming	–	–	–	–	–
Mr. Lu Fang Ming	–	–	–	–	–
Mr. Lau Siu Ki	2	1	–	–	3
Mr. Edward Fredrick Pensel	2	–	–	–	2
Mr. Mao Yu Lang	2	–	–	–	2
	6	191	1,000	–	1,197

11. EMPLOYEES' EMOLUMENTS

The aggregate emoluments of the five highest paid individuals included one (2004: two) executive director(s) of the Company, whose emoluments are included in note 10 above. The emoluments of the remaining four (2004: three) individuals were as follows:

	2005	2004
	US$'000	US$'000
Salaries and other benefits	**547**	209
Retirement benefits scheme contributions	**–**	–
Performance-related incentive payments	**2,152**	1,705
	2,699	1,914

Their emoluments were within the following bands:

	Number of employees	
	2005	2004
HK$4,000,001 to HK$4,500,000	**–**	1
HK$4,500,001 to HK$5,000,000	**1**	1
HK$5,000,001 to HK$5,500,000	**2**	–
HK$6,000,001 to HK$6,500,000	**1**	1
	4	3

12. INCOME TAX EXPENSE

	2005	2004
	US$'000	US$'000
Current tax:		
PRC	**38,429**	6,619
Other jurisdictions	**1,963**	2,781
	40,392	9,400
(Over) underprovision in prior years:		
PRC	**–**	172
Other jurisdictions	**(186)**	52
	(186)	224
Deferred tax *(note 19)*:		
Current year	**(3,992)**	(3,466)
Attributable to a decrease in tax rate	**110**	(346)
	(3,882)	(3,812)
	36,324	5,812

Taxation charge mainly consists of income tax in the PRC attributable to the assessable profits of the Company's subsidiaries established in the PRC. The taxation charge is calculated at the applicable rates prevailing in the PRC ranging from 15% to 16.5%. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The Company's subsidiaries operating in the PRC are eligible for certain tax holiday and concession. The tax holiday and concession normally are in the form of two years tax exemption from the first profitable year, followed by a 50% reduction of the applicable tax rate in the following three years.

12. INCOME TAX EXPENSE *(Continued)*

The taxation for the year can be reconciled to the profit before tax per the consolidated income statement as follows:

	2005	2004
	US$'000	US$'000
Profit before tax	**419,258**	187,131
Tax at the PRC income tax rate of 15% for the year	**62,889**	28,070
Effect of different tax rates of subsidiaries	**(1,814)**	390
Effect of tax exemptions granted to subsidiaries	**(32,366)**	(20,748)
Tax effect of expenses not deductible for tax purpose	**7,141**	2,891
Tax effect of income not taxable for tax purpose	**(934)**	(1,381)
Tax effect of tax losses arising (utilised) not recognised	**1,484**	(3,288)
Decrease in opening deferred tax assets (liabilities) resulting from a decrease in applicable tax rate	**110**	(346)
(Over) underprovision in prior years	**(186)**	224
Tax expense for the year	**36,324**	5,812

The decrease in opening deferred tax assets/liabilities is mainly attributable to changes in tax rates in Mexico and certain European countries.

13. DIVIDEND

No dividend was paid or proposed during 2005, nor has any dividend been proposed since the balance sheet date (2004: Nil).

14. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit for the year attributable to equity holders of parent of US$385,699,000 (2004: US$181,319,000) and the weighted average number of 6,843,816,118 (2004: 5,272,282,897) shares in issue. The weighted average number of shares for the purpose of calculating the basic earnings per share is adjusted for 4,640,000 shares for which their subscriptions have become unconditional on 29 December 2005 and were issued on 4 January 2006, and 1,723,000 free shares that were immediately vested on the grant date on 31 December 2005.

The basic earnings per share for the year ended 31 December 2004 is adjusted for the capitalisation issue of 164,856,712 shares of US$1.00 each and subdivision of each share of US$1.00 each into 25 shares of US$0.04 each in that year.

For the year ended 31 December 2005

14. EARNINGS PER SHARE *(Continued)*

The calculation of the diluted earnings per share attributable to the equity holders of the parent for the year ended 31 December 2005 is based on the following data:

	2005
	US$'000
Earnings	
Earnings for the purposes of basic and diluted earnings per share (Profit for the year attributable to equity holders of the parent)	385,699

Number of shares	
Weighted average number of ordinary shares for the purposes of basic earnings per share	6,843,816,118
Effect of dilutive potential ordinary shares:	
Share options	24,596,130
Weighted average number of ordinary shares for the purposes of diluted earnings per share	6,868,412,248

Diluted earning per share for the year ended 31 December 2004 is not presented because there were no dilutive ordinary shares outstanding during that year.

15. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings US$'000	Plant and machinery US$'000	Fixtures and equipment US$'000	Construction in progress US$'000	Total US$'000
COST					
At 1 January 2004	64,415	185,236	5,937	28,888	284,476
Exchange adjustments	3,949	6,733	257	396	11,335
Acquisition of subsidiaries	–	5,017	–	116	5,133
Additions	15,079	133,757	12,429	62,197	223,462
Disposal of subsidiaries	–	(4,870)	–	–	(4,870)
Other disposals	(3,394)	(57,682)	(1,500)	(4,553)	(67,129)
Transfers	42,536	24,684	889	(68,109)	–
At 31 December 2004	122,585	292,875	18,012	18,935	452,407
Exchange adjustments	(3,695)	(6,757)	(363)	(11)	(10,826)
Acquisition of a subsidiary	16,202	8,188	4,985	–	29,375
Additions	28,512	187,653	19,296	76,649	312,110
Disposals	(6,997)	(29,705)	(3,704)	–	(40,406)
Transfers	9,730	37,921	5,768	(53,419)	–
At 31 December 2005	**166,337**	**490,175**	**43,994**	**42,154**	**742,660**
DEPRECIATION AND IMPAIRMENT					
At 1 January 2004	2,710	19,230	705	–	22,645
Exchange adjustments	370	2,602	106	–	3,078
Charge for the year	3,779	39,629	4,449	–	47,857
Impairment loss	1,214	1,629	–	–	2,843
Disposal of subsidiaries	–	(1,325)	–	–	(1,325)
Eliminated on other disposals	(2,420)	(41,730)	(214)	–	(44,364)
At 31 December 2004	5,653	20,035	5,046	–	30,734
Exchange adjustments	(633)	(5,052)	(65)	–	(5,750)
Charge for the year	6,719	58,238	7,477	–	72,434
Impairment loss	–	7,966	–	–	7,966
Eliminated on disposals	(2,763)	(19,965)	(1,788)	–	(24,516)
At 31 December 2005	**8,976**	**61,222**	**10,670**	**–**	**80,868**
CARRYING VALUES					
At 31 December 2005	**157,361**	**428,953**	**33,324**	**42,154**	**661,792**
At 31 December 2004	116,932	272,840	12,966	18,935	421,673

15. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The impairment loss on property, plant and equipment mainly arose in connection with the Group's restructuring plan for its plant facilities. The recoverable amount is determined based on fair value less costs to sell. The fair values of these plant and machinery have been determined by the management by reference to recent market prices for similar plant and machinery.

Included in the land and buildings are freehold land, located in Hungary, Finland, Brazil, the United States of America and Mexico, having a cost of approximately US$17,119,000 (2004: US$7,548,000). No depreciation is provided on freehold land.

Certain property, plant and equipment are pledged to secure banking facilities granted to the Group as at the balance sheet dates (see note 37).

The above items of property, plant and equipment are depreciated using the straight-line method, after taking into account their estimated residual value, over the following periods:

Freehold land	Nil
Buildings	20-40 years
Plant and machinery	5-10 years
Fixtures and equipment	3-5 years

16. PREPAID LEASE PAYMENTS

The amount represents leasehold interest in land under operating leases in the PRC amortised over their relevant lease term ranging from 40 to 50 years.

17. AVAILABLE-FOR-SALE INVESTMENTS

	2005	2004
	US$'000	US$'000
Unlisted overseas equity investments, at cost	**1,028**	138

The above unlisted investments represent investments in unlisted equity securities issued by private entities incorporated in Taiwan and Finland. They are measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be reliably measured.

18. GOODWILL

	2005	2004
	US$'000	US$'000
At 1 January	**–**	–
Arising on acquisition of a subsidiary	**46,469**	–
Arising on acquisition of additional interest in a subsidiary	**16,606**	1,403
Impairment losses recognised	**–**	(1,403)
At 31 December	**63,075**	–

The amount represents goodwill arising on the acquisition of a 56.48% interest in CMCS (see note 28) in May 2005 and an additional 19.86% interest in CMCS subsequently acquired by the Group up to 31 December 2005.

As at 31 December 2005, before impairment testing, goodwill has been allocated to one single cash generating unit, CMCS. The recoverable amount has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and discount rate of 10.51%. Cash flows beyond the 5-year period are extrapolated in perpetuity using a steady 5.5% growth rate. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Another key assumption for the value in use calculations is the budgeted gross margin, which is determined based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount to exceed the aggregate recoverable amount.

An impairment loss on goodwill of US$1,403,000 arising on the acquisition of remaining 2.3% equity interest of Foxconn Oy in January 2004 was recognised for the year ended 31 December 2004. The goodwill, that had been allocated to one single cash generating unit, the Group's Finnish operation, was impaired after impairment test performed by the management.

19. DEFERRED TAXATION

The following are the major deferred tax liabilities and assets recognised and movements thereon for the year:

	Accelerated tax depreciation US$'000	Tax losses US$'000	Prepaid expenses US$'000	Others US$'000	Total US$'000
At 1 January 2004	6,161	(7,452)	4,638	(92)	3,255
Charge (credit) to income for the year	(3,875)	(2,546)	4,853	(1,898)	(3,466)
Exchange differences	297	(139)	(12)	1	147
Effect of change in tax rate – (credit) charge to the income statement	(672)	1,176	(867)	17	(346)
At 31 December 2004	1,911	(8,961)	8,612	(1,972)	(410)
Acquisition of a subsidiary	–	(3,121)	–	–	(3,121)
Charge (credit) to income for the year	950	2,968	(8,612)	702	(3,992)
Exchange differences	5	65	–	–	70
Effect of change in tax rate – charge to the income statement	57	53	–	–	110
At 31 December 2005	**2,923**	**(8,996)**	**–**	**(1,270)**	**(7,343)**

For the purposes of balance sheet presentation, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2005 US$'000	2004 US$'000
Deferred tax assets	**(10,094)**	(2,643)
Deferred tax liabilities	**2,751**	2,233
	(7,343)	(410)

19. DEFERRED TAXATION *(Continued)*

At the balance sheet date, the Group has unused tax losses of US$24,175,000 (2004: US$36,282,000) available for offset against future profits. A deferred tax asset has been recognised in respect of US$24,175,000 (2004: US$34,468,000) of such losses. No deferred tax asset has been recognised in respect of the remaining US$1,814,000 as at 31 December 2004 due to the unpredictability of future profit streams. The unrecognised tax losses will expire before 2010.

By reference to financial budgets, management believes that there will be sufficient future profits or taxable temporary differences available in the future for the realisation of deferred tax assets in respect of tax losses.

The Group did not have material temporary differences associated with undistributed earnings of subsidiaries as at the balance sheet dates.

20. INVENTORIES

	2005	2004
	US$'000	US$'000
Raw materials	**255,383**	264,327
Work-in-progress	**113,970**	27,999
Finished goods	**144,646**	187,867
	513,999	480,193

21. INVESTMENTS HELD FOR TRADING

The amount represents investment in listed bond funds on the Taiwan Stock Exchange held for trading purpose. The fair values are determined based on the quoted market bid prices available on the Taiwan Stock Exchange as at 31 December 2005.

22. TRADE AND OTHER RECEIVABLES

	2005	2004
	US$'000	US$'000
Trade receivables	**1,488,078**	658,603
Other receivables, deposits and prepayments	**24,771**	33,730
	1,512,849	692,333

The Group normally allows an average credit period of 30 to 90 days to its trade customers.

22. TRADE AND OTHER RECEIVABLES *(Continued)*

The following is an aged analysis of trade receivables at the balance sheet date:

	2005	2004
	US$'000	US$'000
0-90 days	**1,485,673**	655,115
91-180 days	**2,042**	2,999
181-360 days	**288**	456
Over 360 days	**75**	33
	1,488,078	658,603

The fair value of the Group's trade and other receivables at the balance sheet dates was approximate to the corresponding carrying amounts.

23. TRADE AND OTHER PAYABLES

	2005	2004
	US$'000	US$'000
Trade payable	**1,202,338**	697,342
Accruals and other payable	**206,402**	149,013
	1,408,740	846,355

The following is an aged analysis of trade payables at the balance sheet date:

	2005	2004
	US$'000	US$'000
0-90 days	**1,192,824**	693,753
91-180 days	**2,055**	1,573
181-360 days	**5,563**	1,936
Over 360 days	**1,896**	80
	1,202,338	697,342

The fair value of the Group's trade and other payables at the balance sheet dates was approximate to the corresponding carrying amount.

24. BANK LOANS

	2005 **US$'000**	2004 US$'000
The borrowings are repayable as follows:		
On demand or within one year	**175,548**	633,956
In the second year	**–**	260
In the third to fifth years inclusive	**–**	850
After five years	**–**	2,450
	175,548	637,516
Less: Amount due for settlement within twelve months (shown under current liabilities)	**175,548**	633,956
Amount due for settlement after twelve months	**–**	3,560
Analysed as:		
Secured	**–**	3,810
Unsecured	**175,548**	633,706
	175,548	637,516
Analysis of borrowings by currency:		
US$	**175,548**	637,516

As at 31 December 2005, bank borrowings of US$175,548,000 carried interest at 0.40% plus LIBOR per annum. As at 31 December 2004, bank borrowings of US$25,500,000 carried interest at 0.45% plus LIBOR per annum and all remaining bank loans were arranged at fixed rates from 1.5% to 7.5% per annum.

Certain property, plant and equipment were pledged to secure the banking facilities granted to the Group as at 31 December 2004 (see note 37).

The fair value of the Group's bank borrowings at the balance sheet dates was approximate to the corresponding amount.

25. SHARE CAPITAL

	Number of shares	Amount US$'000
Authorised:		
Ordinary shares of US$1.00 each		
Balance at 1 January 2004	38,800,000	38,800
Increased on 22 March 2004	1	–
Increased on 31 March 2004	200,000,000	200,000
Increased on 30 August 2004	561,199,999	561,200
Subdivision of shares of US$1.00 each into 25 shares of US$0.04 each on 1 December 2004	19,200,000,000	–
Balance at 31 December 2004 and 31 December 2005	20,000,000,000	800,000
Issued and fully paid:		
Ordinary shares of US$1.00 each		
Balance at 1 January 2004	38,800,000	38,800
Issued on 22 March 2004	1	–
Issued on 31 March 2004	35,143,288	35,143
Capitalisation issue on 9 August 2004	164,856,712	164,857
Subdivision of shares of US$1.00 each into 25 shares of US$0.04 each on 1 December 2004	5,731,200,024	–
Balance at 31 December 2004	5,970,000,025	238,800
Issued on 2 February 2005	869,400,000	34,776
Issued on 28 February 2005	87,101,000	3,484
Issued on 19 August 2005	26,915,000	1,077
Balance at 31 December 2005	6,953,416,025	278,137

As disclosed in note 1, the Company allotted and issued one share of US$1.00 to its immediate holding company on 22 March 2004 pursuant to the Group Reorganisation. The share capital of the Group disclosed in the consolidated balance sheet as at 1 January 2004 represent the aggregate capital amount of the Company, Grand Champion and Wide-Ranging before the Group Reorganisation using the principal of merger accounting.

On 31 March 2004, the Company allotted and issued a total of 35,143,288 shares of US$1.00 each for cash consideration of US$6.63 per share. These shares rank pari passu in all respects with the then other shares in issue.

25. SHARE CAPITAL *(Continued)*

On 9 August 2004, 164,856,712 new shares of US$1.00 each were issued to existing shareholders proportionally by way of capitalisation of retained profits and share premium of approximately US$96,980,000 and US$67,877,000 respectively. These shares rank pari passu in all respects with the then other shares in issue.

Pursuant to an ordinary resolution passed on 1 December 2004, every then issued share of US$1.00 each of the Company were subdivided into 25 shares of US$0.04 each, and the authorised but unissued shares were re-designated and subdivided into shares of US$0.04 each.

Pursuant to the Company's global offering, the Company issued 869,400,000 and 87,101,000 shares of US$0.04 each for consideration of HK$3.88 (equivalent to US$0.5) per share on 2 February 2005 and 28 February 2005, respectively. The Company's shares were listed on the Stock Exchange on 3 February 2005.

On 19 August 2005, the Company allotted and issued a total of 26,915,000 shares of US$0.04 each to certain employees of CMCS for cash consideration of HK$5.065 (equivalent to US$0.6) per share. These shares rank pari passu in all respects with the then existing shares in issue.

On 15 December 2005, the Company further entered into subscription agreements (the "Subscription Agreements") with certain employees of CMCS, pursuant to which the Company agreed to allot and issue an aggregate of 4,640,000 new shares of US$0.04 each for cash consideration of HK$12.5 (equivalent to US$1.6) per share. These shares rank pari passu in all respects with the then existing shares in issue. Pursuant to the Subscription Agreements, the subscriptions have become unconditional as at 29 December 2005 and the 4,640,000 new shares were subsequently issued in January 2006. The subscription price received of HK$58,000,000 (equivalent to US$7,480,000) is included as equity of the Company as at 31 December 2005.

Details of share option scheme of the Company are disclosed in note 36 to the consolidated financial statements.

26. RESERVES

The Group's special reserve represents the difference between the paid-in capital of the subsidiaries acquired pursuant to the Group Reorganisation and the nominal value of the Company's shares issued in exchange therefrom.

The Group's legal reserve represents statutory reserve attributable to the Company's subsidiaries in the PRC. As required by the laws in the PRC, appropriations are made from the profit of these subsidiaries to the legal reserve until the balance reaches 50% of the registered capital of the subsidiaries. This reserve can only be used to make up losses incurred or to increase capital.

27. DERIVATIVES

Currency derivatives

The Group utilises currency derivatives to hedge significant future transactions and cash flows. The Group is a party of utilising a variety of foreign currency forward contracts in the management of its exchange rate exposures. The instruments adopted are primarily to hedge the currencies used in the Group's principal markets.

At the balance sheet date, total notional amount of outstanding foreign exchange forward contracts that the Group has committed are as below.

	2005	2004
	US$'000	US$'000
Forward foreign exchange contracts	15,152	4,642

As at 31 December 2005, the fair value of the Group's currency derivatives is estimated to be approximately US$203,000 (2004: US$166,000) based on market values provided by the banks of equivalent instruments at the balance sheet date.

Interest rate swaps

The Group uses interest rate swaps to manage its exposure to interest rate movements on certain of its bank borrowings. Contracts with nominal values of US$9.5 million (2004: US$4.5 million) have fixed interest payments at an average rate of 4 per cent for periods until 2008 and have floating interest receipts based on The Bond Market Association Municipal Swap Index.

The fair value of the swaps entered into at 31 December 2005 is estimated at approximately US$188,000 (2004: US$181,000). These amounts are based on market values provided by the bank of equivalent instruments at the balance sheet date.

28. ACQUISITION OF SUBSIDIARIES

Pursuant to a stock purchase agreement dated 31 January 2004, the Group acquired 100% equity invest in Transworld Holdings Limited (together with its wholly-owned subsidiary, namely Superior Communication (Hangzhou) Co., Ltd.) from an independent third party at a consideration of US$5,000,000.

On 12 May 2005, Transworld Holdings Limited entered into two sale and purchase agreements with two vendors respectively to acquire a 56.48% interest in CMCS. The acquisition of CMCS was completed after approval was obtained from the Investment Commission of the Ministry of Economic Affairs of Taiwan on 30 May 2005.

28. ACQUISITION OF SUBSIDIARIES *(Continued)*

These transactions have been accounted for by the purchase method of accounting. The fair value of net assets acquired in the transactions, and the goodwill arising, are as follows:

	2005 US$'000	2004 US$'000
Property, plant and equipment	29,375	5,133
Available-for-sale investments	955	–
Deferred tax assets	3,121	–
Inventories	19,295	–
Trade and other receivables	25,756	1,193
Investments held for trading	13,182	–
Bank balances and cash	4,678	3,052
Trade and other payables	(25,187)	(4,378)
Provision	(5,766)	–
Tax payable	(1,105)	–
Bank loans	(5,965)	–
Net assets acquired	58,339	5,000
Minority interests	(25,389)	–
Goodwill arising on the acquisition	46,469	–
	79,419	5,000
Total consideration, satisfied by:		
Cash	79,419	5,000
Net cash outflow arising on acquisition:		
Cash consideration paid	79,419	5,000
Bank balances and cash acquired	(4,678)	(3,052)
	74,741	1,948

The directors have completed an evaluation of the fair value of assets and liabilities acquired pursuant to the acquisition of CMCS, Transworld Holdings Limited and Superior Communication (Hangzhou) Co., Ltd. and concluded that the carrying amount of the net assets acquired before the combination approximates their fair value.

The goodwill arising on the acquisition of CMCS is attributable to the anticipated future operating synergies from the combination. CMCS is a Taiwan-based original design manufacturer of handsets. The directors believe that the acquisition of CMCS will enhance the Group's design capabilities, reinforce the Group's vertical integration business strategy and strengthen the provision of value-added services to its existing customers.

28. ACQUISITION OF SUBSIDIARIES *(Continued)*

CMCS contributed approximately US$42,681,000 of turnover and loss for the year attributable to equity holders of the parent of US$4,659,000 for the period between the date of acquisition and 31 December 2005.

If the acquisition of CMCS had been completed on 1 January 2005, total group turnover for the current year would have been US$6,471,027,000, and the profit for the year would have been US$386,320,000. The proforma information is for illustrative purposes only and is not necessarily an indicative turnover and results of the Group that actually would have been achieved had the acquisition been completed on 1 January 2005, nor is it intended to be a projection of future results.

Transworld Holdings Limited and Superior Communication (Hangzhou) Co., Ltd. contributed approximately US$791,000 of turnover and loss for the year attributable to equity holders of the parent of US$754,000 for the period between the date of acquisition and 31 December 2004.

If the acquisition of Transworld Holdings Limited and Superior Communication (Hangzhou) Co., Ltd. had been completed on 1 January 2004, total group turnover for that year would have been US$3,308,270,000, and the profit for the year would have been US$181,274,000. The proforma information is for illustrative purposes only and is not necessarily an indicative turnover and results of the Group that actually would have been achieved had the acquisition been completed on 1 January 2004, nor is it intended to be a projection of future results.

29. DISPOSAL OF SUBSIDIARIES

Pursuant to a sale and purchase agreement dated 3 May 2004, the Group disposed of its interests in Eimo (H.K.) Limited and companies directly held by Eimo (H.K.) Limited to an independent third party, at a consideration of approximately US$2,308,000. Eimo (H.K.) Limited was a wholly owned subsidiary of Foxconn Oy. The net assets of these subsidiaries at the date of disposal were as follows:

	2004 US$'000
Property, plant and equipment	3,545
Trade receivables	1,259
Deposits, prepayments and other receivables	628
Bank balances and cash	476
Trade payables	(54)
Other payables and accrued expenses	(2,941)
	2,913
Loss on disposal	(605)
Total consideration	2,308
Satisfied by:	
Cash	2,308
Net cash inflow arising on disposal:	
Cash consideration	2,308
Bank balances and cash disposed of	(476)
	1,832

29. DISPOSAL OF SUBSIDIARIES *(Continued)*

The subsidiaries being disposed of during the year ended 31 December 2004 contributed approximately US$926,000 to the Group's net operating cash outflows and paid approximately US$1,005,000 in respect of investing activities during that year.

These subsidiaries contributed approximately US$88,000 of revenue and US$260,000 of loss for the period from 1 January 2004 up to the effective date of disposal.

30. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and short term bank deposits with an original maturity of three months or less. The deposits carry at prevailing market interest rate of 1.70% (2004: 1.75%) per annum. The fair value of bank deposits at 31 December 2005 approximates to the corresponding carrying amount.

31. PROVISION

	Warranty provision
	US$'000
At 1 January 2005	–
Acquired on an acquisition of a subsidiary	5,766
Provision in the year	22,068
Utilisation of provision	(4,199)
At 31 December 2005	**23,635**

The warranty provision represents management's best estimate of the Group's liability under twelve to eighteen months' warranty granted on handset products, based on prior experience and industry averages for defective products.

32. CAPITAL COMMITMENTS

	2005	2004
	US$'000	US$'000
Commitments for the acquisition of property, plant and equipment contracted but not provided for	**17,369**	45,304

33. OPERATING LEASE ARRANGEMENTS

The Group as lessee

	2005	2004
	US$'000	US$'000
Minimum lease payments under operating leases in respect of premises recognised for the year	**2,765**	4,743

At the balance sheet date, the Group had outstanding commitments under non-cancellable operating leases in respect of premises, which fall due as follows:

	2005	2004
	US$'000	US$'000
Within one year	**2,059**	1,879
In the second to fifth years inclusive	**491**	945
	2,550	2,824

Leases are negotiated, and rentals are fixed, for an average term of one to three years.

34. RELATED PARTY TRANSACTIONS

(a) During the year, the Group entered into the following transactions with related parties, including Hon Hai, the Company's ultimate holding company, and subsidiaries of Hon Hai other than members of the Group:

	2005 US$'000	2004 US$'000
Ultimate holding company		
Product sales	**359**	1,182
Leases expenses	**68**	–
R&D expenses	**18**	–
Sub-contracting income	**2,638**	–
Sub-contracting expenses	**41**	–
Equipment purchases	**2,952**	25,382
Equipment sales	**2,141**	2,042
Materials and components purchase	**11,322**	12,753
Subsidiaries of Hon Hai		
Product sales	**21,347**	3,855
Leases expenses	**1,683**	547
General services expenses	**17,103**	21,966
R&D expenses	**4,548**	–
Sub-contracting income	**720**	2,677
Sub-contracting expenses	**16,233**	6,533
Equipment purchases	**9,195**	10,843
Equipment sales	**5,261**	798
Materials and components purchase	**24,377**	34,050

During 2004, Hon Hai Group also transferred certain patent titles to the Group for consideration of US$153. In addition, Hon Hai Group granted a license to the Group to use the trademarks registered by Hon Hai Group free of any licence fees on the Group.

34. RELATED PARTY TRANSACTIONS *(Continued)*

(b) At the balance sheet date, the Group had the following balances due from/to related parties included in:

	2005 US$'000	2004 US$'000
Trade receivables:		
Ultimate holding company	**344**	2,094
Subsidiaries of Hon Hai	**5,068**	1,098
	5,412	3,192
Other receivables:		
Ultimate holding company	**27**	60
Subsidiaries of Hon Hai	**766**	684
	793	744
	6,205	3,936
Trade payables:		
Ultimate holding company	**2,476**	1,730
Subsidiaries of Hon Hai	**14,942**	13,892
	17,418	15,622
Other payables:		
Ultimate holding company	**184**	7,673
Subsidiaries of Hon Hai	**9,375**	11,932
	9,559	19,605
	26,977	35,227

Balances due from/to related parties are unsecured, interest free and are repayable within one year.

(c) Compensation of key management personnel

The short term benefits paid or payable by the Group to directors of the Company and other members of key management during the year is approximately US$4,747,000 (2004: US$4,638,000).

35. RETIREMENT BENEFITS PLANS

Majority of the employees of the Company's subsidiaries are members of state-managed retirement benefit schemes operated by the government in the PRC. These subsidiaries in the PRC are required to contribute a specified percentage ranging from 5% to 20% of their payroll costs to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the specified contributions.

CMCS, a subsidiary acquired by the Group in May 2005, operates a defined benefit plan in Taiwan. Under the scheme, the employees are entitled to retirement benefits at up to 45 months' final salary on attainment of a retirement age of 55. The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 31 December 2005 by 徐茂欽精算師，中華民國精算師協會 (Hsu Mao-Chin Actuary, The Actuarial Institute of the Republic of China). The present value of the defined benefit obligation, the related current service cost and past service cost were measured using the projected unit credit method.

The main actuarial assumptions used were as follows:

	2005
Discount rate	3.5%
Expected return on plan assets	3.5%
Expected rate of salary increases	3.0%
Future pension increases	–

The actuarial valuation showed that the market value of plan assets was equivalent to US$582,000.

Amounts recognised in income in respect of the defined benefit plans are as follows:

	2005 US$'000
Current service cost	150
Interest cost	23
Expected return on plan assets	(15)
Net actuarial (gains)/losses	–
Past service cost	15
	173

35. RETIREMENT BENEFITS PLANS *(Continued)*

Of the charge for the year, US$75,000 has been included in cost of sales and US$98,000 has been included in administrative expenses.

The actual return on plan assets was US$4,000 as at 31 December 2005.

The amount included in the balance sheet arising from the Group's obligation in respect of its defined benefit retirement benefit plans is as follows:

	2005
	US$'000
Present value of funded obligations	**610**
Unrecognised actuarial gains/(losses)	**208**
Unrecognised past service cost	**(206)**
Fair value of plan assets	**(582)**
Included as current liabilities	**30**

Movements in the net liability in the current year were as follows:

	2005
	US$'000
At 1 January	**–**
Net liability acquired on acquisition of a subsidiary	**20**
Amounts charged to income	**173**
Contributions	**(163)**
At 31 December	**30**

The Group also operates a number of defined contribution schemes in other overseas locations. Arrangements for these staff retirement benefits vary from country to country and are made in accordance with local regulations and custom.

36. SHARE-BASED PAYMENT TRANSACTIONS

The Company's share option scheme (the "Option Scheme"), was approved by a conditional resolution of the shareholders of the Company dated 1 December 2004 and adopted by a resolution of directors on 12 January 2005 for the primary purpose of providing incentives to directors and eligible employees, and will expire on 3 February 2015. Under the Option Scheme, the board of directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company. Additionally, the Company may, from time to time, grant share options to outside third parties for settlement in respect of goods or services provided to the Company. No share options were granted under the Option Scheme on or before 1 January 2005.

At 31 December 2005, the number of shares in respect of which options had been granted and remained outstanding under the Option Scheme was 435,290,000, representing 6.3% of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the Option Scheme is not permitted to exceed 10% of the shares of the Company in issue as at 3 February 2005, the listing date, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

Options granted must be taken up within 30 days after the date of grant, upon payment of HK$1.0 per offer. The Option Scheme does not contain any minimum period for which an option must be held before it can be exercised, though such minimum period may be specified by the board of directors at the time of grant. The exercise price is determined by the directors of the Company, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

On 25 July 2005, 435,599,000 share options were granted at an exercise price of HK$6.06. The options are divided into six even lots with vesting period ranging from one to six years from the date of grant. The share options are exercisable from the vesting date to 31 December 2011, the maturity date for these options, subject to the terms and conditions of the Option Scheme. The estimated fair value of the options granted on 25 July 2005 was US$104,038,000.

The closing price of the shares immediately before 25 July 2005, the date of grant of options, was HK$5.75.

The following table discloses movements of the Company's share options held by employees during the year:

Option type	Outstanding at 1/1/2005	Granted during year	Exercised during year	Lapsed during year	Expired during year	Outstanding at 31/12/2005
2005	**–**	**435,599,000**	**–**	**(309,000)**	**–**	**435,290,000**

No share options were exercisable as at 31 December 2005.

36. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

The fair value was calculated using the Black-Scholes option pricing model. The inputs into the model were as follows:

Share price on date of grant	US$0.76 (equivalent to HK$5.95)
Exercise price	US$0.76 (equivalent to HK$6.06)
Expected volatility	30%
Expected life	Vesting period plus 1.5 years
Risk free rate	3.3925%

Because the Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share prices, changes in subjective input assumptions can materially affect the fair value estimate.

Expected volatility was determined by calculating the historical volatility of the Company's share price over the period from 3 February 2005 (date of listing) to grant date. The expected life in the model has been adjusted, based on management's best estimate, for the effect of non transferability, exercise restrictions and behavioral considerations.

Pursuant to a share scheme approved by a conditional resolution of the shareholders of the Company dated 1 December 2004 and adopted by a resolution of the directors on 12 January 2005 (the "Share Scheme"), the Company may grant free shares to the directors, employees of the Company or its subsidiaries or third party service providers including employees of Hon Hai and its other subsidiaries.

On 31 December 2005, 1,723,000 new shares were also granted by the Company and vested to employees of the Group under the Share Scheme. No consideration is payable on the grant of the shares. The estimated fair value of these free shares granted was US$2,802,000. The fair value is measured at closing share price of HK$12.65 (equivalent to US$1.63) per share without adjustment for expected dividends. The new shares have not been issued up to the balance sheet date.

The Group recognised the total expenses of US$20,076,000 (2004: Nil) for the year ended 31 December 2005 in relation to share options and free shares granted by the Company.

37. PLEDGE OF ASSETS

As at the balance sheet date, the Group pledged property, plant and equipment having a carrying value of approximately US$19,727,000 (2004: US$41,106,000) to secure general banking facilities granted to the Group. The bank facilities were unutilised as at 31 December 2005.

In addition, a subsidiary of the Company namely Foxconn Oy has pledged its trade receivables and inventories with floating charge to secure general banking facilities granted to it. The general banking facilities amounted to approximately US$47,328,000 (2004: US$53,128,000). The bank facilities were unutilised as at 31 December 2005 and 2004.

38. SUBSIDIARIES

The Company has the following subsidiaries as at 31 December 2005:

Name of subsidiary	Form of business structure	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company Directly	Indirectly	Principal activities
CMCS	Limited company	Taiwan	NT$1,500,000,000	–	76.332%	Design and manufacture of handsets
Dynacept Corporation	Limited company	United States of America ("USA")	US$1,000	–	100%	Prototyping and development
Foxconn Pecs Kft	Limited company	Hungary	EUR735,000	–	100%	Manufacture of handsets
Executar International Limited	Limited company	Cayman Islands	US$323,456,436	100%	–	Investment holding
FIH Co., Limited	Limited company	Taiwan	NT$1,000,000	100%	–	Provision of services to group companies
Foxconn Beijing Trading Co., Ltd	Limited company	British Virgin Islands ("BVI")	US$1	100%	–	Trading of handsets
Foxconn DK ApS	Limited Company	Denmark	DKK2,100,000	–	100%	Research development and project management
Foxconn EMEA Inc.	Limited company	BVI	US$100,000	100%	–	Trading of handsets
Foxconn Hungary Kft	Limited company	Hungary	HUF10,039,000,000	–	100%	Manufacture of handsets
Foxconn Mexico Precision Industry Co., S.A. de C.V.	Limited company	Mexico	MXN169,094,000	–	100%	Manufacture of handsets
Foxconn Oy	Limited company	Finland	EUR1,558,800	–	100%	Manufacture of handsets
富士康精密組件(北京)有限公司(Foxconn Precision Component (Beijing) Co., Ltd.)	Wholly foreign owned enterprise	PRC	US$38,800,000	–	100%	Manufacture of handsets
Grand Champion	Limited company	BVI	US$66,409,723	–	100%	Investment holding

38. SUBSIDIARIES *(Continued)*

Name of subsidiary	Form of business structure	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company Directly	Attributable equity interest held by the Company Indirectly	Principal activities
宏訊電子工業(杭州)有限公司(Honxun Electrical Industry (Hangzhou) Co., Ltd.)	Wholly foreign owned enterprise	PRC	US$53,800,000	–	100%	Manufacture of handsets
S&B Industry Hold Co., L.L.C.	Limited company	USA	US$7,218,280	–	100%	Investment holding
S&B Industry, Inc.	Limited company	USA	US$31,594,767	–	100%	Plastics manufacturing
S&B Industry Technologies L.P.	Limited company	USA	US$7,218,280	–	100%	Repair Center
深圳富泰宏精密工業有限公司(Shenzhen Futaihong Precision Industrial Co., Ltd.)	Wholly foreign owned enterprise	PRC	US$78,520,000	–	100%	Manufacture of handsets
Success World Holdings Limited	Limited company	Hong Kong	HK$388,525,000	100%	–	Investment holding
Sutech Holdings Limited	Limited company	BVI	US$1	100%	–	Investment holding
Sutech Industry Inc.	Limited company	USA	US$10,000	–	100%	Provision of logistics services to group companies
Sutech Trading Limited	Limited company	BVI	US$1	–	100%	Trading of handsets
富士康(天津)精密工業有限公司 Foxconn (Tian Jin) Precision Industry Co., Ltd.)	Wholly foreign owned enterprise	PRC	US$19,800,000	–	100%	Manufacture of handsets
Transworld Holdings Limited	Limited company	Samoa	US$81,875,000	–	100%	Investment holding

38. SUBSIDIARIES *(Continued)*

Name of subsidiary	Form of business structure	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company Directly	Attributable equity interest held by the Company Indirectly	Principal activities
Foxconn do Brasil Indústria e Comércio de Electrônicos Ltda (formerly Triple S Cosmoplast da Amazonia, Ltda.)	Limited company	Brazil	R$1,464,790	–	100%	Manufacture of handsets
Wide-Ranging	Limited company	BVI	US$39,779,648	–	100%	Investment holding
Excel True Holdings Limited	Limited company	BVI	US$50,000	–	100%	Investment holding
Foxconn India Private Limited	Limited company	India	INR19,999,900	–	100%	Manufacturing, import, export, distribution and assembly

None of the subsidiaries had issued any debt securities at the end of the year.

FINANCIAL SUMMARY

	For the year ended 31 December				
	2001	2002	2003	2004	**2005**
	(US$'million)	*(US$'million)*	*(US$'million)*	*(US$'million)*	***(US$'million)***
Results					
Turnover	7.64	272.41	1,090.62	3,308.27	**6,364.50**
Profit from operations	3.22	36.82	106.00	195.10	**433.15**
Interest expenses on bank borrowings	–	(0.02)	(1.17)	(7.37)	**(13.90)**
Loss on disposal of subsidiaries	–	–	–	(0.60)	**–**
Profit before tax	3.22	36.80	104.83	187.13	**419.25**
Income tax expense	–	(1.79)	(3.33)	(5.81)	**(36.32)**
Profit after tax and before minority interests	3.22	35.01	101.50	181.32	**382.93**
Minority interests	–	–	0.10	–	**2.77**
Net profit for the year	3.22	35.01	101.60	181.32	**385.70**

	As at 31 December				
	2001	2002	2003	2004	**2005**
	(US$'million)	*(US$'million)*	*(US$'million)*	*(US$'million)*	***(US$'million)***
Assets and liabilities					
Total assets	28.37	168.61	1,071.86	2,119.56	**3,158.55**
Total liabilities	(19.26)	(123.63)	(870.82)	(1,488.75)	**(1,631.53)**
Minority interests	–	–	(1.96)	–	**(12.05)**
Capital and reserves	9.11	44.98	199.08	630.81	**1,514.97**

The results for each of the two years ended 31 December 2002, which were extracted from the Company's prospectus dated 24 January 2005, have been prepared on a combined basis as if the Group Reorganisation had been effective and the Group had been in existence throughout those years.

CORPORATE GOVERNANCE REPORT

The board of directors of the Company ("Board") believes corporate governance is important to ensure transparency and accountability and is committed to maintain good corporate governance standard. The Company has complied with all the code provisions set out in the Code on Corporate Governance Practices ("CCGP") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") throughout the accounting year ended 31 December 2005 except for code provision A.2.1, which requires that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

THE BOARD

The Board is responsible for the leadership and control of the Company and oversees the Group's overall businesses, strategic decisions and performances. The Board has delegated power to the management for the daily management and operations of the Group. In addition, the Board has also delegated its powers to the Board committees. The Board currently has two committees namely the remuneration committee and the audit committee, each of which discharges its functions and duties in accordance with the respective terms of reference proposed with reference to the relevant provisions under the CCGP.

The Board currently consists of two executive directors, four non-executive directors and three independent non-executive directors.

Executive directors
Chin Wai Leung, Samuel *(Chairman and Chief Executive Officer)*
Dai Feng Shuh *(Chief Operating Officer)*

Non-executive directors
Chang Ban Ja, Jimmy
Gou Hsiao Ling
Lee Jin Ming
Lu Fang Ming

Independent non-executive directors
Lau Siu Ki *(chairman of the remuneration committee and the audit committee)*
Edward Fredrick Pensel
Mao Yu Lang

During the year, five board meetings were held and the attendance of each director is set out below:

Name of director	Number of board meetings attended in 2005
Chin Wai Leung, Samuel	3/5
Dai Feng Shuh	5/5
Chang Ban Ja, Jimmy	2/5
Gou Hsiao Ling	2/5
Lee Jin Ming	5/5
Lu Fang Ming	3/5
Lau Siu Ki	5/5
Edward Fredrick Pensel	4/5
Mao Yu Lang	5/5

The Board meets regularly and the board meetings are held at least four times a year. At least fourteen days notice is given to all directors and they can include matters for discussion in the agenda. An agenda and accompanying board papers are sent to all directors at least three days before the intended date of a board meeting. Every board member is entitled to have access to board papers and related materials and has access to the advice and services of the Company Secretary. They can also request to seek independent professional advice. The minutes books are kept by the company secretary.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Under code provision A.2.1 of the CCGP, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Chin Wai Leung, Samuel currently holds both positions. Given that the Company only became a listed company on The Stock Exchange of Hong Kong Limited ("Stock Exchange") in February 2005 and taking into account the continuation in the implementation of business plan and formulation of business strategies, the Board considers that the present arrangement for Mr. Chin, the Chairman, to hold the office of chief executive officer of the Company is beneficial and in the interests of the Company and its shareholders as a whole. However, in the spirit of corporate governance, the Board will continue to review in the current year the roles of chairman and chief executive officer and, if considered appropriate, separate the two roles in compliance with code provision A.2.1 of the CCGP.

The Chairman is responsible for leadership and for ensuring that directors receive adequate information in a timely manner and are briefed on issues arising at board meetings.

APPOINTMENTS, RE-ELECTION AND REMOVAL OF DIRECTOR

The Company entered into a letter of appointment with each of the non-executive directors for a term of three years commencing from 1 December 2004 subject to re-election at each annual general meeting of the Company in accordance with article 112 of the articles of association of the Company. All the directors of the Company are subject to retirement by rotation at least once every three years.

REMUNERATION COMMITTEE

The Company established a remuneration committee with written terms of reference by reference to the provisions of the CCGP.

The remuneration committee consists of one non-executive director and two independent non-executive directors. The members are:

Lau Siu Ki *(chairman)*
Edward Fredrick Pensel
Lee Jin Ming

The principal duties of the remuneration committee are to make recommendation on the policy and structure for the remuneration of the directors and senior management, and to consider and approve remuneration for the directors and senior management by reference to corporate goals and objectives. The committee shall meet at lease once a year if necessary. During the year, by a way of written resolutions, the remuneration committee considered and approved the proposed grant of award shares to beneficiaries under the share scheme of the Company.

AUDIT COMMITTEE

The Company established an audit committee with written terms of reference by reference to the provisions of the CCGP.

The audit committee consists of one non-executive director and two independent non-executive directors. The members are:

Lau Siu Ki *(chairman)*
Edward Fredrick Pensel
Lee Jin Ming

The principal duties of the audit committee are to review the Group's financial reporting and accounting policies and practices as well as financial controls, internal control and risk management systems. It also makes recommendation on the appointment, re-appointment and removal of external auditor, and approves the remuneration and terms of engagement of the external auditor. It will also review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process.

For the year ended 31 December 2005, the audit committee met twice, in particular, to review and discuss the auditing and financial reporting, and to review the unaudited interim results and the audited financial statements. The attendance of each member of the audit committee is shown below:

Name of director	Number of audit committee meetings attended in 2005
Lau Siu Ki	2/2
Edward Fredrick Pensel	2/2
Lee Jin Ming	2/2

Full minutes of the audit committee are kept by the Company Secretary. Draft and final versions of minutes of the audit committee are sent to all members of the committee for their comment and records respectively within a reasonable time after the meeting.

NOMINATION OF DIRECTORS

The Company does not have a nomination committee. The Board is responsible for the appointment of its members and for considering appropriate candidates for re-election by shareholders at annual general meeting.

The Board in accordance with the articles of the association of the Company consider candidates for directorship. A board meeting was held at which the directors considered and approved, among other things, noting and considering the re-election of directors at the forthcoming annual general meeting.

AUDITORS' REMUNERATION

The responsibility of the auditors is to form an independent opinion, based on their audit, on those financial statements and to report their opinion solely to the Company, as a body, and for no other purpose.

During the year, the following remuneration paid to the Company's auditors, Deloitte Touche Tohmatsu, is set out below:

Services rendered	Fee paid *US$000*
Audit services	550
Non-audit services	–

DIRECTORS' RESPONSIBILITY FOR FINANCIAL STATEMENTS

The directors acknowledge their responsibility for preparing the financial statements of the Group and ensure that the financial statements are in accordance with statutory requirements and applicable accounting standards.

ACCOUNTABILITY AND AUDIT

The directors are responsible for overseeing the preparation of accounts of each financial period, which gives a true and fair view of the financial position and operating results of the Group. In preparing the 2005 financial statements, the directors have selected suitable accounting policies and have applied them in a consistent manner, and made reasonable judgments and estimates, and have prepared the accounts on the going concern basis.

The Board is responsible for ensuring effectiveness of the system of internal control within the Group so that objectives of the Group can be achieved. The internal control system, which includes a defined management structure with well-defined level of authority and proper segregation of duty and physical control, is designed to provide reasonable assurance regarding the achievement of objectives including effectiveness and efficiency of operations, reliable of financial reporting, safeguarding of assets and compliance with applicable laws and regulations. As the system is designed to manage the Group's risks within an acceptable risk profile, there is no absolute assurance against material misstatement or loss. The Group has established an on-going process of monitoring the system of controls.

Risk management is a central part of the Group's strategic management and is the process whereby the Group methodically identifies and manages key risks to the achievement of the Group's overall objectives. It marshals the understanding of the potential upside and downside of all those factors which can affect the organization. The process include strategic planning, budgetary control, appointment of senior management, performance measurement and reward, assigning responsibility throughout the Group, control over capital expenditure and proper treasury management.

The Board is of the view that the system of internal controls in place for the year under review is sound and is sufficient to safeguard the interests of shareholders, customers, creditors and employees.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") as set out in Appendix 10 of the Listing Rules. The Company made specific enquiry of all directors and all the directors confirm that they have complied with the Model Code and the Company's code of conduct.

EFFECTIVE COMMUNICATION

At the 2005 annual general meeting, separate resolutions were proposed for shareholders' consideration and approval in respect of each of the key matters, including the re-election of directors, which required approval by the shareholders.

The chairman of the Board, the chairman of the audit committee and the remuneration committee attended the 2005 annual general meeting to answer questions from the shareholders at the meeting.

VOTING BY POLL

At the 2005 annual general meeting, the procedures for demanding a poll by the shareholders were incorporated in the annual general meeting circular. The procedures for demanding a poll by shareholders and for conducting a poll were also explained by the chairman of the Board at the annual general meeting.