# INTERIM REPORT 2006

**Foxconn International Holdings Limited**

**富士康國際控股有限公司**

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 2038)

# 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 BANKERS

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

Deloitte.
德勤

# INDEPENDENT REVIEW REPORT
## TO THE DIRECTORS OF FOXCONN INTERNATIONAL HOLDINGS LIMITED

### Introduction
We have been instructed by the Company to review the interim financial report set out on pages 5 to 29.

### Directors' responsibilities
The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with International Accounting Standard 34 "Interim Financial Reporting" issued by the International Accounting Standards Board and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### Review work performed
We conducted our review in accordance with the Statement of Auditing Standards 700 ("SAS 700") "Engagements to Review Interim Financial Reports" issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

**Review conclusion**

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2006.

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*

Hong Kong, 1 September 2006

# CONDENSED CONSOLIDATED INCOME STATEMENT

*FOR THE SIX MONTHS ENDED 30 JUNE 2006*

| | | Six months ended | |
|---|---|---|---|
| | | **30.6.2006** | 30.6.2005 |
| | | **US$'000** | US$'000 |
| | NOTES | **(unaudited)** | (unaudited) |
| Turnover | 3 | **4,377,930** | 2,348,372 |
| Cost of sales | | **(3,936,093)** | (2,095,124) |
| Gross profit | | **441,837** | 253,248 |
| Other income | | **21,426** | 22,953 |
| Selling expense | | **(10,766)** | (5,272) |
| General and administrative expense | | **(68,515)** | (82,766) |
| Research and development expense | | **(30,568)** | (18,854) |
| Interest expense on bank loans | | **(8,092)** | (6,640) |
| Restructuring costs | 4 | **(7,881)** | – |
| Profit before tax | 5 | **337,441** | 162,669 |
| Income tax expense | 6 | **(37,183)** | (15,813) |
| Profit for the period | | **300,258** | 146,856 |
| Attributable to: | | | |
| Equity holders of the parent | | **301,692** | 146,856 |
| Minority interests | | **(1,434)** | – |
| | | **300,258** | 146,856 |
| Earnings per share | 8 | | |
| Basic | | **US4.34 cents** | US2.18 cents |
| Diluted | | **US4.20 cents** | N/A |

# CONDENSED CONSOLIDATED BALANCE SHEET

*AT 30 JUNE 2006*

| | NOTES | 30.6.2006 US$'000 (unaudited) | 31.12.2005 US$'000 (audited) |
|---|---|---|---|
| Non-current assets | | | |
| Property, plant and equipment | 9 | **770,840** | 661,792 |
| Prepaid lease payments | | **6,284** | 6,306 |
| Goodwill | | **63,075** | 63,075 |
| Available-for-sale investments | | **1,007** | 1,028 |
| Deferred tax assets | 10 | **10,414** | 10,094 |
| Deposits for acquisition of property, plant and equipment | | **26,207** | 22,263 |
| | | **877,827** | 764,558 |
| Current assets | | | |
| Inventories | | **672,779** | 513,999 |
| Investments held for trading | | **6,058** | 7,193 |
| Trade and other receivables | 11 | **1,418,138** | 1,512,849 |
| Bank deposits | | **23,322** | 48,925 |
| Cash and cash equivalents | | **542,809** | 311,023 |
| | | **2,663,106** | 2,393,989 |
| Assets classified as held for sale | 12 | **7,315** | – |
| | | **2,670,421** | 2,393,989 |
| Current liabilities | | | |
| Trade and other payables | 13 | **1,473,419** | 1,408,740 |
| Bank loans | 14 | **140,056** | 175,548 |
| Provision | 15 | **41,027** | 23,635 |
| Tax payable | | **40,210** | 20,856 |
| | | **1,694,712** | 1,628,779 |
| Liabilities associated with assets classified as held for sale | 12 | **471** | – |
| | | **1,695,183** | 1,628,779 |
| Net current assets | | **975,238** | 765,210 |
| | | **1,853,065** | 1,529,768 |

## CONDENSED CONSOLIDATED BALANCE SHEET *(Continued)*

*AT 30 JUNE 2006*

| | NOTES | 30.6.2006 US$'000 (unaudited) | 31.12.2005 US$'000 (audited) |
|---|---|---|---|
| Capital and reserves | | | |
| Share capital | 16 | **278,322** | 278,137 |
| Reserves | | **1,561,900** | 1,236,833 |
| Equity attributable to equity holders of the parent | | **1,840,222** | 1,514,970 |
| Minority interests | | **10,809** | 12,047 |
| Total equity | | **1,851,031** | 1,527,017 |
| Non-current liabilities | | | |
| Deferred tax liabilities | 10 | **2,034** | 2,751 |
| | | **1,853,065** | 1,529,768 |

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*FOR THE SIX MONTHS ENDED 30 JUNE 2006*

| | Attributable to equity holders of the parent | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital US$'000 (unaudited) | Share premium US$'000 (unaudited) | Subscription monies US$'000 (unaudited) | Special reserve US$'000 (unaudited) | Legal reserve US$'000 (unaudited) (Note) | Translation reserve US$'000 (unaudited) | Share compensation reserve US$'000 (unaudited) | Accu-mulated profits US$'000 (unaudited) | Total US$'000 (unaudited) | Minority interests US$'000 (unaudited) | Total US$'000 (unaudited) |
| Balance at 1 January 2005 | 238,800 | 129,980 | - | 15,514 | 23,679 | 22,469 | - | 200,367 | 630,809 | - | 630,809 |
| Profit for the period | - | - | - | - | - | - | - | 146,856 | 146,856 | - | 146,856 |
| Exchange differences arising on translation of foreign operations recognised directly in equity | - | - | - | - | - | (19,686) | - | - | (19,686) | - | (19,686) |
| Total recognised income for the period | - | - | - | - | - | (19,686) | - | 146,856 | 127,170 | - | 127,170 |
| Shares issued at premium | 38,260 | 438,761 | - | - | - | - | - | - | 477,021 | - | 477,021 |
| Share issue expenses | - | (16,997) | - | - | - | - | - | - | (16,997) | - | (16,997) |
| Acquisition of a subsidiary | - | - | - | - | - | - | - | - | - | 25,389 | 25,389 |
| Profit appropriations | - | - | - | - | 19,114 | - | - | (19,114) | - | - | - |
| Balance at 30 June 2005 | 277,060 | 551,744 | - | 15,514 | 42,793 | 2,783 | - | 328,109 | 1,218,003 | 25,389 | 1,243,392 |
| Balance at 1 January 2006 | 278,137 | 568,173 | 7,480 | 15,514 | 73,156 | 15,845 | 20,076 | 536,589 | 1,514,970 | 12,047 | 1,527,017 |
| Profit for the period | - | - | - | - | - | - | - | 301,692 | 301,692 | (1,434) | 300,258 |
| Exchange differences arising on translation of foreign operations recognised directly in equity | - | - | - | - | - | 4,965 | - | - | 4,965 | 196 | 5,161 |
| Total recognised income for the period | - | - | - | - | - | 4,965 | - | 301,692 | 306,657 | (1,238) | 305,419 |
| Shares issued at premium | 185 | 7,295 | (7,480) | - | - | - | - | - | - | - | - |
| Recognition of equity-settled share based payment | - | - | - | - | - | - | 18,595 | - | 18,595 | - | 18,595 |
| Balance at 30 June 2006 | 278,322 | 575,468 | - | 15,514 | 73,156 | 20,810 | 38,671 | 838,281 | 1,840,222 | 10,809 | 1,851,031 |

Note: The Group's legal reserve represents statutory reserve attributable to the Company's subsidiaries in the People's Republic of China ("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.

# CONDENSED CONSOLIDATED CASH FLOW STATEMENT

*FOR THE SIX MONTHS ENDED 30 JUNE 2006*

| | Six months ended | |
|---|---|---|
| | **30.6.2006** | 30.6.2005 |
| | **US$'000** | US$'000 |
| | **(unaudited)** | (unaudited) |
| Net cash from operating activities | **412,902** | 76,795 |
| Net cash used in investing activities | | |
| Purchase of property, plant and equipment | **(177,109)** | (123,643) |
| Increase in deposits for acquisition of property, plant and equipment | **(3,944)** | (8,572) |
| Acquisition of subsidiaries | **–** | (74,741) |
| Proceeds from disposal of property, plant and equipment | **6,625** | 10,960 |
| Decrease in bank deposits for investing purpose | **26,080** | – |
| Other investing cash flows | **–** | (2,004) |
| | **(148,348)** | (198,000) |
| Net cash from financing activities | | |
| Proceeds from issue of new shares | **–** | 477,021 |
| Share issue expenses | **–** | (16,997) |
| Bank loans raised | **940,000** | 282,760 |
| Bank loans repaid | **(975,492)** | (633,956) |
| | **(35,492)** | 108,828 |
| Net increase (decrease) in cash and cash equivalents | **229,062** | (12,377) |
| Cash and cash equivalents at 1 January | **311,023** | 499,426 |
| Effect of foreign exchange rate changes | **2,724** | (4,743) |
| Cash and cash equivalents at 30 June | **542,809** | 482,306 |

# NOTES TO THE CONDENSED FINANCIAL STATEMENTS

*FOR THE SIX MONTHS ENDED 30 JUNE 2006*

## 1. GENERAL AND BASIS OF PREPARATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability. 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"), a company incorporated in Taiwan and its shares are listed on the Taiwan Stock Exchange.

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.

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and with International Accounting Standard 34 "Interim Financial Reporting".

The condensed financial statements are presented in United States Dollars ("US$") which is also the functional currency of the Company.

## 2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair values, as appropriate.

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2005 except as described below.

In the current period, the Group has adopted all of the new International Financial Reporting Standards, amendments and interpretation ("new IFRSs") issued by the International Accounting Standards Board ("IASB") which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of the new IFRSs has had no material effect on how the results for the current or prior accounting periods are prepared and presented. Accordingly, no prior period adjustment was required.

**2. PRINCIPAL ACCOUNTING POLICIES** *(Continued)*

The Group has not early applied the following new standards, amendment and interpretation that have been issued but are not yet effective:

| | |
|---|---|
| IAS 1 (Amendment) | Capital Disclosures[1] |
| IFRS 7 | Financial Instruments: Disclosures[1] |
| IFRIC 7 | Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies[2] |
| IFRIC 8 | Scope of IFRS 2[3] |
| IFRIC 9 | Reassessment of Embedded Derivatives[4] |
| IFRIC 10 | Interim Financial Reporting and Impairment[5] |

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

The directors of the Company anticipate that the application of these new standards, amendments or interpretations will have no material impact on the financial position and results of the Group.

## 3. SEGMENT INFORMATION

The Group's turnover and segment results are entirely derived from the manufacture and trading of handsets. 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.

| | Six months ended | |
|---|---|---|
| | **30.6.2006** | 30.6.2005 |
| | **US$'000** | US$'000 |
| | **(unaudited)** | (unaudited) |
| EXTERNAL SALES | | |
| Asia | **2,746,021** | 892,068 |
| Europe | **547,324** | 406,243 |
| America | **1,084,585** | 1,050,061 |
| Total | **4,377,930** | 2,348,372 |
| RESULTS | | |
| Asia | **270,656** | 95,874 |
| Europe | **49,657** | 33,880 |
| America | **102,877** | 118,222 |
| | **423,190** | 247,976 |
| Unallocated corporate income | **21,426** | 22,953 |
| Unallocated corporate expenses | **(99,083)** | (101,620) |
| Unallocated interest expense on bank loans | **(8,092)** | (6,640) |
| Profit before tax | **337,441** | 162,669 |
| Income tax expense | **(37,183)** | (15,813) |
| Profit for the period | **300,258** | 146,856 |

## 4. RESTRUCTURING COSTS

| | Six months ended | |
|---|---|---|
| | **30.6.2006** | 30.6.2005 |
| | **US$'000** | US$'000 |
| | **(unaudited)** | (unaudited) |
| Impairment losses on property, plant and equipment | **3,384** | – |
| Redundancy and other costs | **4,497** | – |
| | **7,881** | – |

The amount represents those costs incurred and provision made in connection with the Group's restructuring and relocating its European operations during the period.

## 5. PROFIT BEFORE TAX

| | Six months ended | |
|---|---|---|
| | **30.6.2006** | 30.6.2005 |
| | **US$'000** | US$'000 |
| | **(unaudited)** | (unaudited) |
| Profit before tax has been arrived at after charging (crediting): | | |
| Allowance for doubtful debts | **1,740** | 435 |
| Write down of inventories | **16,037** | 9,051 |
| Amortisation of prepaid lease payments (included in general and administrative expense) | **84** | 31 |
| Cost of inventories recognised as expense | **3,896,969** | 2,086,073 |
| Provision for warranty | **23,087** | – |
| Depreciation of property, plant and equipment | **48,676** | 31,363 |
| Interest income from bank | **(5,922)** | (4,194) |

## 6. INCOME TAX EXPENSE

| | Six months ended 30.6.2006 US$'000 (unaudited) | Six months ended 30.6.2005 US$'000 (unaudited) |
|---|---|---|
| Current tax: | | |
| PRC | **36,706** | 11,005 |
| Other jurisdictions | **1,735** | 1,917 |
| | **38,441** | 12,922 |
| Underprovision in prior years: | | |
| PRC | **90** | – |
| Other jurisdictions | **43** | 64 |
| | **133** | 64 |
| Deferred tax: | | |
| Current period (note 10) | **(1,391)** | 2,827 |
| | **37,183** | 15,813 |

## 6. INCOME TAX EXPENSE *(Continued)*

Taxation charge mainly consists of income tax in the PRC attributable to the assessable profits subject to tax rates ranging from 15% to 16.5%. The taxation charge is calculated at the applicable rates prevailing in the PRC. 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.

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

| | Six months ended | |
|---|---|---|
| | **30.6.2006** | 30.6.2005 |
| | **US$'000** | US$'000 |
| | **(unaudited)** | (unaudited) |
| Profit before tax | **337,441** | 162,669 |
| Tax at the PRC income tax rate of 15% for the period | **50,616** | 24,400 |
| Effect of different tax rates of subsidiaries | **336** | 1,630 |
| Effect of tax exemptions and concessions granted to subsidiaries | **(20,951)** | (10,731) |
| Tax effect of expenses not deductible for tax purpose | **10,875** | 2,511 |
| Tax effect of income not taxable for tax purpose | **(954)** | (4,075) |
| Tax effect of tax losses (utilised) not recognised | **3,338** | (328) |
| Decrease in opening deferred tax assets resulting from dispute with tax bureau | **–** | 2,342 |
| Tax effect of income tax credits granted to a PRC subsidiary on acquisition of certain qualified equipment (note) | **(6,210)** | – |
| Underprovision in prior periods | **133** | 64 |
| Tax expense for the period | **37,183** | 15,813 |

Note: Pursuant to the relevant tax rules and regulations, PRC subsidiaries of the Company can claim PRC income tax credits on 40% of the acquisition cost of certain qualified equipment manufactured in the PRC. Such PRC income tax credits are allowed as deduction from current income tax expenses when relevant conditions are fulfilled and tax approval is obtained from the tax bureau.

## 7. DIVIDEND

No dividend was paid during the six months ended 30 June 2006. The directors do not recommend the payment of an interim dividend.

## 8. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30 June 2006 is based on the profit attributable to equity holders of the parent for the period of US$301,692,000 (2005: US$146,856,000) and the weighted average number of 6,958,056,025 (2005: 6,744,884,000) shares in issue during the period.

The calculation of the diluted earnings per share attributable to the equity holders of the parent for the six months ended 30 June 2006 is based on the following data:

| | US$'000 (unaudited) |
|---|---|
| **Earnings** | |
| Earnings for the purposes of basic and diluted earnings per share (Profit for the period attributable to equity holders of the parent) | **301,692** |
| **Number of shares** | |
| Weighted average number of ordinary shares for the purposes of basic earnings per share | **6,958,056,025** |
| Effect of dilutive potential ordinary shares: | |
| Share options | **226,001,822** |
| Share awards | **2,576,905** |
| Weighted average number of ordinary shares for the purposes of diluted earnings per share | **7,186,634,752** |

Diluted earning per share for the six months ended 30 June 2005 is not presented because there were no dilutive ordinary shares outstanding during that period.

## 9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment of approximately US$177,109,000 (2005: US$123,643,000).

In addition, the Group disposed of certain property, plant and equipment with a carrying amount of US$5,788,000 (2005: US$9,736,000) for proceeds of US$6,625,000 (2005: US$10,960,000), resulting in a profit on disposal of US$837,000 (2005: US$1,224,000) for the period.

An impairment loss of US$3,384,000 was recognised during the period in respect of certain production facilities (see note 4).

Property, plant and equipment of US$5,377,000 has been reclassified as assets held for sale as at 30 June 2006 (see note 12).

## 10. DEFERRED TAXATION

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

| | Allowances for inventories, trade and other receivables | Accelerated tax depreciation | Tax losses | Prepaid expenses | Others | Total |
|---|---|---|---|---|---|---|
| | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 |
| At 1 January 2005 | – | 1,911 | (8,961) | 8,612 | (1,972) | (410) |
| Acquisition of a subsidiary | – | – | (3,121) | – | – | (3,121) |
| Charge (credit) to income for the period | – | 1,774 | 8,050 | (9,010) | 2,013 | 2,827 |
| Exchange differences | – | (654) | (43) | 398 | (96) | (395) |
| At 30 June 2005 | – | 3,031 | (4,075) | – | (55) | (1,099) |
| At 1 January 2006 | (279) | 2,923 | (8,996) | – | (991) | (7,343) |
| Charge (credit) to income for the period | (3,248) | (867) | 2,258 | – | 466 | (1,391) |
| Exchange differences | 32 | (22) | 230 | – | 114 | 354 |
| At 30 June 2006 | (3,495) | 2,034 | (6,508) | – | (411) | (8,380) |

**10. DEFERRED TAXATION** *(Continued)*

There were no other significant temporary differences as at the balance sheet date.

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:

| | **30.6.2006** | 31.12.2005 |
|---|---|---|
| | **US$'000** | US$'000 |
| | **(unaudited)** | (audited) |
| Deferred tax assets | **(10,414)** | (10,094) |
| Deferred tax liabilities | **2,034** | 2,751 |
| | **(8,380)** | (7,343) |

At 30 June 2006, the Group has unused tax losses of US$45,000,000 (31.12.2005: US$31,000,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately US$23,000,000 (31.12.2005: US$31,000,000) of such losses. No deferred tax asset has been recognised in respect of the remaining US$22,000,000 (31.12.2005: Nil) either due to the unpredictablility of future profit streams or because it is not probable that the unused tax losses will be available for utilisation before their expiry. The unrecognised tax losses will expire before 2011.

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 which have been recognised in respect of tax losses.

The Group did not have material temporary differences associated with undistributed earnings of subsidiaries as at 30 June 2006. In addition, the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such difference will not reverse in the foreseeable future.

## 11. TRADE AND OTHER RECEIVABLES

| | 30.6.2006 US$'000 (unaudited) | 31.12.2005 US$'000 (audited) |
|---|---|---|
| Trade receivables | **1,388,858** | 1,488,078 |
| Other receivables, deposits and prepayments | **29,280** | 24,771 |
| | **1,418,138** | 1,512,849 |

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

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

| | 30.6.2006 US$'000 (unaudited) | 31.12.2005 US$'000 (audited) |
|---|---|---|
| 0-90 days | **1,387,023** | 1,485,673 |
| 91-180 days | **1,460** | 2,042 |
| 181-360 days | **256** | 288 |
| Over 360 days | **119** | 75 |
| | **1,388,858** | 1,488,078 |

## 12. ASSETS AND LIABILITIES HELD FOR SALE

In May 2006, the directors resolved to dispose of one of the Group's production plants in the United States (see note 20). The assets and liabilities attributable to the production plant have been classified as a disposal group held for sale and are presented separately in the balance sheet.

The proceeds of disposal are expected to exceed the net carrying amount of the relevant assets and liabilities and, accordingly, no impairment loss has been recognised on the classification of these assets as held for sale.

The major classes of assets and liabilities of the disposal group classified as held for sale are as follows:

| | **30.6.2006 US$'000 (unaudited)** |
|---|---|
| Property, plant and equipment | **5,377** |
| Inventories | **323** |
| Trade and other receivables | **1,615** |
| Total assets classified as held for sale | **7,315** |
| Trade and other payables, and liabilities associated with assets classified as held for sale | **471** |

## 13. TRADE AND OTHER PAYABLES

| | 30.6.2006 | 31.12.2005 |
|---|---|---|
| | US$'000 | US$'000 |
| | (unaudited) | (audited) |
| Trade payable | 1,284,399 | 1,202,338 |
| Accruals and other payable | 189,020 | 206,402 |
| | 1,473,419 | 1,408,740 |

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

| | 30.6.2006 | 31.12.2005 |
|---|---|---|
| | US$'000 | US$'000 |
| | (unaudited) | (audited) |
| 0-90 days | 1,270,709 | 1,192,824 |
| 91-180 days | 10,715 | 2,055 |
| 181-360 days | 1,098 | 5,563 |
| Over 360 days | 1,877 | 1,896 |
| | 1,284,399 | 1,202,338 |

## 14. BANK LOANS

The bank loans are repayable within one year, unsecured and carry interest at fixed interest rates ranging from 5.0% to 5.8% (31.12.2005: 1.5% to 7.5%) per annum.

## 15. PROVISION

| | Warranty provision |
|---|---|
| | US$'000 |
| At 1 January 2005 | – |
| Acquired on an acquisition of a subsidiary | 5,766 |
| Provision in the period | 22,068 |
| Utilisation of provision | (4,199) |
| At 31 December 2005 | 23,635 |
| Provision in the period | 23,087 |
| Utilisation of provision | (5,695) |
| At 30 June 2006 | 41,027 |

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

## 16. SHARE CAPITAL

| | Number of shares | Amount US$'000 |
|---|---|---|
| Ordinary shares of US$0.04 each, authorised: | | |
| Balance at 31 December 2005 and 30 June 2006 | 20,000,000,000 | 800,000 |
| Ordinary shares of US$0.04 each, issued and fully paid | | |
| Balance at 1 January 2005 | 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 |
| Issued on 4 January 2006 | 4,640,000 | 185 |
| Balance at 30 June 2006 | 6,958,056,025 | 278,322 |

On 15 December 2005, the Company entered into subscription agreements ("Subscription Agreements") with certain employees of a subsidiary, 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 new shares were subsequently issued on 4 January 2006.

## 17. COMMITMENTS

| | **30.6.2006 US$'000 (unaudited)** | 31.12.2005 US$'000 (audited) |
|---|---|---|
| Commitments for the acquisition of property, plant and equipment contracted but not provided for | **25,996** | 17,369 |

## 18. SHARE-BASED PAYMENT TRANSACTIONS

(a) Equity-settled share option scheme

The Company has a share option scheme for eligible employees of the Group. Details of the share options outstanding during the current period are as follows:

| Option type | Outstanding at 1/1/2006 | Lapsed during the period | Outstanding at 30/6/2006 |
|---|---|---|---|
| 2005 | 435,290,000 | (2,781,000) | 432,509,000 |

The outstanding share options are granted on 25 July 2005 with vesting period ranging from one to six years from the grant date. 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 share scheme.

The outstanding share options as at 30 June 2006 had not yet vested. The Group recognised total expense of US$17,379,000 (2005: Nil) for the six months ended 30 June 2006 in relation to the share options granted by the Company.

(b) Cash-settled share-based payments

During the current period, the Group issued to certain employees share appreciation rights ("SAR") at exercise price of HK$13.6 and HK$15 with vesting period ranging from one to two years from the grant date. The SARs require the Group to pay the intrinsic value of the SAR to the employee at the date of exercise. At 30 June 2006, the Group has recorded liabilities of US$115,000 (31.12.2005: Nil). The fair value of the SARs is determined using the Black-Scholes pricing model. The Group recorded total expenses of US$115,000 (2005: Nil) during the six months ended 30 June 2006 in respect of SARs. The SARs granted have not vested up to 30 June 2006.

## 18. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

(c) Other share-based payment plan

On 31 December 2005, the Company awarded 3,273,000 shares to certain employees pursuant to a share scheme adopted on 12 January 2005, of which 1,723,000 shares awarded were vested immediately, while the remaining shares are granted with vesting periods ranging from one to three years from the grant date. No consideration is payable on the grant of the shares. Details of the unvested shares outstanding during the current period are as follows:

| | Number of shares |
|---|---|
| At 1 January 2006 | 1,550,000 |
| Lapsed during the period | (54,000) |
| At 30 June 2006 | 1,496,000 |

During the six months ended 30 June 2006, the Group has recognised total expense of US$1,216,000 (2005: Nil) in relation to the free shares granted by the Company. No new shares have been issued pursuant to the share scheme up to 30 June 2006.

## 19. RELATED PARTY DISCLOSURES

(a) During the period, 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:

| | Six months ended | |
|---|---|---|
| | **30.6.2006** | 30.6.2005 |
| | **US$'000** | US$'000 |
| | **(unaudited)** | (unaudited) |
| Ultimate holding company, Hon Hai: | | |
| Product sales | **477** | 316 |
| Materials and components purchase | **5,133** | 6,410 |
| Equipment purchase | **6,863** | 979 |
| Equipment sales | **749** | 2,141 |
| Sub-contracting income | **238** | – |
| Sub-contracting expense | **283** | – |
| Research and development expense | **11** | – |
| General service income | **142** | – |
| Subsidiaries of Hon Hai | | |
| Product sales | **7,396** | 6,690 |
| Materials and components purchase | **17,278** | 10,916 |
| Equipment purchase | **2,907** | 4,633 |
| Equipment sales | **589** | 3,147 |
| Leases expense | **1,367** | 380 |
| Sub-contracting income | **2,043** | 100 |
| Sub-contracting expense | **11,554** | 6,377 |
| Research and development expense | **1,064** | 1,125 |
| General service expense | **12,683** | 9,104 |

## 19. RELATED PARTY DISCLOSURES *(Continued)*

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

| | **30.6.2006 US$'000 (unaudited)** | 31.12.2005 US$'000 (audited) |
|---|---|---|
| Trade receivables: | | |
| Ultimate holding company | **504** | 344 |
| Subsidiaries of Hon Hai | **4,715** | 5,068 |
| | **5,219** | 5,412 |
| Other receivables: | | |
| Ultimate holding company | **14** | 27 |
| Subsidiaries of Hon Hai | **615** | 766 |
| | **629** | 793 |
| | **5,848** | 6,205 |
| Trade payables: | | |
| Ultimate holding company | **3,091** | 2,476 |
| Subsidiaries of Hon Hai | **19,657** | 14,942 |
| | **22,748** | 17,418 |
| Other payables: | | |
| Ultimate holding company | **31** | 184 |
| Subsidiaries of Hon Hai | **7,308** | 9,375 |
| | **7,339** | 9,559 |
| | **30,087** | 26,977 |

The amounts are unsecured, interest free and are repayable on demand.

## 19. RELATED PARTY DISCLOSURES *(Continued)*

(c) Compensation of key management personnel

The benefits paid or payable by the Group to directors of the Company and other members of key management during the period is approximately US$3,270,000 (2005: US$2,373,000).

## 20. EVENT AFTER THE BALANCE SHEET DATE

As announced by the Company on 1 August 2006, Dynacept Corporation ("Dynacept"), a wholly-owned subsidiary of the Company, entered into two agreements on 31 July 2006 with MRP Real Estate Holdings, LLC and MRP Brewster, LLC (the "Purchasers") pursuant to which Dynacept disposed certain of its assets and liabilities at a cash consideration of US$8,580,000. The Purchasers are beneficially owned by a director of Dynacept and a relative of that director. The relevant assets and liabilities are reclassified as assets and liabilities held for sale (see note 12) as at 30 June 2006. It is estimated that the Group will record a gain, net of costs, of approximately US$1,500,000 as a result of the disposal.

## 21. APPROVAL

The consolidated condensed financial statements on pages 5 to 29 were approved and authorised for issue by the Board of Directors on 1 September 2006.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Review of Results and Operations

For the six months ended 30 June 2006, our Group recorded a 86% year-on-year increase in consolidated turnover of US$4,378 million (2005: US$2,348 million). Profit before tax for the period was US$337 million, representing 107% growth over the US$163 million profit before tax for the same period last year. Basic earnings per share for the period was US4.34 cents.

The first six months of 2006 we saw not only continued growth in the global handset markets, but also our key customers' excellent performance in an intensifying competitive environment. Under such circumstances, our unique advantages in speed, quality, engineering services, flexibility and cost offered through our revolutionary eCMMS business model have been highly appreciated by our customers. Our one of a kind integration of mechanical and electrical engineering capabilities continue to contribute to our customers' ability to cope with shorter handset product lifecycles and ever demanding innovative product designs. Throughout the years, we have seen such win-win partnership strengthened between the Group and its key customers.

With the success of our key customers in the market together with our relentless efforts in providing the best services to them, we were able to sustain high double digit turnover growth during the period. We have been continuously expanding the business volumes with and the scope of services provided to our key customers. We also continued to streamline our business to improve our efficiency and competitiveness in midst of focusing on our core handset business and disposing unrelated overseas operation. Our subsidiary, Chi Mei Communication Systems, Inc., focusing on ODM, joint design (JDSM), and joint development (JDVM) services has attracted strong interest from our customers and prospects. To further expand our design capacity and enhance our design capabilities including CDMA, we have set up a branch office in Korea to recruit additional design team members. Our efforts to expand our overseas operations also remained active during the period, with an emphasis on speeding up our investment into India, one of the fastest growing handset markets in the world. Our continuous expansion in these fast growing BRIC countries should fuel our next phase growth in the future. In China, we have also continued to streamline our various production sites and explored the optimal way to allocate our resources.

## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### Review of Results and Operations *(Continued)*

In view of the fierce competition, it is vital for us to provide more value-added services to our customers. To this end, we have invested in new material handling and surface treatment technologies that we believe will be of great interest to our customers in the future, in light of end users' increasing form factor demand. We have also studied various ways to expand our service scope to facilitate the most efficient supply chain for our customers.

All these efforts contributed to our ever closer relationship with our key customers and, hence, strong performance result in the first half of 2006.

### Liquidity and Financial Resources

Our Group generally finances operations with internally generated cash flow and banking facilities provided by our principal bankers in Hong Kong, Taiwan and China. We maintain a strong financial position: as at 30 June 2006, the total shareholders' equity of our Group was approximately US$1,840 million, an increase of about 21% over that as at 31 December 2005, and our cash and cash equivalents and bank deposits stood at US$566 million. Our interest bearing bank borrowings as at 30 June 2006 amounted to US$140 million with majority mature by mid December. During the period, we did not use any financial instruments for hedging purposes. Our gearing ratio, which was computed by dividing the current liabilities and long term debt by shareholder's equity, was 92%. Due to our increasing purchasing power and expanding economies of scale, we were able to better mix and match our account receivables with account payables for the purpose of natural hedge. This balancing and the natural hedge created have in essence smoothed out our cash flow and minimized our currency exposure risk.

### Capital Commitments and Contingent Liabilities

As at 30 June 2006, our capital commitments were US$26 million (2005: US$17 million). As at the same date, we had no contingent liabilities.

## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### Pledge of Assets

A subsidiary of the Company namely Foxconn Oy has pledged its property, plant and equipment, trade receivables and inventories of approximately US$41 million with a floating charge to secure general banking facilities granted to it. As at 30 June 2006, our Group's general banking facilities amounted to approximately US$1,670 million, of which approximately only US$140 million were utilized.

### Outlook

In summary, with the positive business momentum continuing since beginning of the year, we are confident that 2006 will be another excellent year for our Company. We will continue to work closely with our customers to deliver the best performance results for the remaining months to come.

### Employees and Remuneration Policies

As at 30 June 2006, our Group had a total of 66,174 employees. Total staff costs incurred during the period of six months ended 30 June 2006 amounted to US$159 million (2005: US$151 million). We offer a comprehensive remuneration policy which is reviewed by the management on a regular basis.

Our Company has adopted a share scheme and a share option scheme respectively. The share option scheme complies with the requirements as set out in Chapter 17 of the Listing Rules. The purposes of the schemes are to incentivize eligible participants who contribute to our Group's operations.

The Company granted options to employees under the share option scheme.

# OTHER INFORMATION

## Disclosure of Interests

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

As at 30 June 2006, 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 | Nature of interest | Total number of ordinary shares | Approximate percentage of interest in the Company/ associated corporations |
|---|---|---|---|---|
| CHIN Wai Leung, Samuel | Company | Personal Interest | 22,225,275 | 0.319% |
| | Hon Hai | Personal Interest | 308,485 | 0.008% |
| DAI Feng Shuh | Company | Personal Interest | 23,721,275 | 0.341% |
| | Hon Hai | Personal Interest | 252,530 | 0.006% |
| CHANG Ban Ja, Jimmy | Hon Hai | Personal Interest | 1,745,892 | 0.043% |
| LEE Jin Ming | Hon Hai | Personal Interest | 928,830 | 0.023% |
| LU Fang Ming | Hon Hai | Personal Interest | 1,300,596 | 0.032% |
| MAO Yu Lang | Hon Hai | Personal Interest | 522,399 | 0.013% |

## OTHER INFORMATION *(Continued)*

### Disclosure of Interests *(Continued)*

*Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures (Continued)*

Save as disclosed above, none of the directors or the chief executives of the Company had, as at 30 June 2006, 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 30 June 2006, 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 | 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 | 73.02% |
| Hon Hai (note) | Interest of a controlled corporation | 5,081,034,525 | 73.02% |

Note: Foxconn (Far East) Limited is a direct wholly-owned subsidiary of Hon Hai and, 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.

## OTHER INFORMATION *(Continued)*

### Disclosure of Interests *(Continued)*

*Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares (Continued)*

Save as disclosed above, as at 30 June 2006, 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.

## SHARE OPTION SCHEME

Movements of the share options granted under the share option scheme during the period of six months ended 30 June 2006 are as follows:

| Outstanding at beginning of the period of six months ended 30 June 2006 | Date of grant | Granted during the period of six months ended 30 June 2006 | Vesting period | Exercise price | Exercise during the period of six months ended 30 June 2006 | Lapsed during the period of six months ended 30 June 2006 | Expired during the period of six months ended 30 June 2006 | Outstanding at the end of the period of six months ended 30 June 2006 |
|---|---|---|---|---|---|---|---|---|
| 435,290,000 | - | 0 | each year on 25 July from 2006 to 2011 | HK$6.06 | 0 | 2,781,000 | 0 | 432,509,000 |

Apart from the share option scheme above and the share scheme, at no time during the period of six months ended 30 June 2006 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.

## DIVIDEND

No dividend was paid during the period of six months ended 30 June 2006. The directors do not recommend the payment of an interim dividend for the period.

## 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 period of six months ended 30 June 2006.

## MOVEMENT OF RESERVE

During the period of six months ended 30 June 2006, there was no reserve transferred from the retained profits.

## 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 of directors of the Company ("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 unaudited interim results of the Group for the period of six months ended 30 June 2006.

Further, the interim results for the period of six months ended 30 June 2006 are unaudited, but have been reviewed by the Company's auditors, Deloitte Touche Tohmatsu, in accordance with Statement of Auditing Standards 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Institute of Certified Public Accountants.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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 to 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.

## 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 period covered by the interim report, in compliance with the CCGP as set out in Appendix 14 to the Listing Rules save as disclosed in this announcement.

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. The Board has reviewed the roles of chairman and chief executive officer and considers that the present arrangement for Mr. Chin, the chairman, to hold the office of chief executive officer of the Company at the same time, is still necessary in the continuation of the smooth implementation of business plan and efficient formulation of business strategies of the Group. The Board believes that Mr. Chin holding both offices of the chief executive officer and chairman is beneficial to and in the interests of the Company and its shareholders as a whole; notwithstanding that, in the spirit of corporate governance, the Board will 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.

## DISCLOSURE OF INFORMATION ON THE STOCK EXCHANGE'S WEBSITE

The 2006 interim report of the Company containing all the information required by the Listing Rules will be dispatched to the shareholders of the Company and made available on the website of the Stock Exchange in due course.

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

Hong Kong, 1 September 2006