

# Management Discussion and Analysis

The year 2004 was another successful year for the Company. We experienced rapid growth through enhancing our mass production capabilities and our services to our customers. Our turnover, gross profit and net profit grew year-on-year by 203.33%, 113.02% and 78.47%, respectively.

## Products

The end products that we manufacture for our customers primarily comprise complete handset systems and modules for handsets.

## Systems

Revenues from systems increased by US\$1,342.20 million, or 526.03%, from US\$255.15 million in 2003 to US\$1,597.35 million in 2004.

## Modules

Revenues from modules increased by US\$875.45 million, or 104.79%, from US\$835.47 million in 2003 to US\$1,710.92 million in 2004. Our revenues from modules contributed to 51.72% of total turnover in 2004.

We have seen good year-on-year growth of our systems and modules sales in 2004 as a result of our expanding global capacity and enhanced services to our customers.

## Turnover

Turnover increased by US\$2,217.65 million, or 203.33%, from US\$1,090.62 million in 2003 to US\$3,308.27 million in 2004 as a result of increased production catering to our customers' needs around the globe. Our acquisitions in the fourth quarter of 2003 of the former Eimo group and our acquisition of the Motorola plant in Mexico also contributed to this expansion of global capacity and production capability.

## Profit

Gross profit increased by US\$159.93 million, or 113.02%, from US\$141.51 million in 2003 to US\$301.44 million in 2004. Our gross profit margin decreased from 12.98% in 2003 to 9.11% in 2004. Our gross profit margin decreased because sales of systems increased and gross profit margin for systems is generally lower than the gross profit margin for modules.

Profit from operations increased by US\$89.10 million, or 84.06%, from US\$106.00 million in 2003 to US\$195.10 million in 2004.

Net profit increased by US\$79.72 million, or 78.47%, from US\$101.60 million in 2003 to US\$181.32 million in 2004.

## Liquidity and Financial Resources

As at 31 December 2004, we had a cash balance of US\$499.43 million. The cash balance is expected to finance our working capital and capital expenditure plans in light of our continuing fast growth. We had net increase in bank loans by US\$471.99 million in 2004 for our capital expenditure financing, as well as for our treasury operations to manage our working capital. Our gearing ratio, expressed as a percentage of interest bearing external borrowings of US\$637.52 million over total assets of US\$2,119.56 million, is 30.08%.

Net cash used in operating activities in 2004 was US\$207.47 million.

Net cash used in investing activities in 2004 was US\$246.73 million. Our expenditures for investing activities were primarily for the purchase of property, plant and equipment related to our facilities in our major sites in China, Hungary and Mexico.

Net cash generated from financing activities in 2004 was US\$663.82 million, primarily due to proceeds of US\$236.08 million from the issuance of shares to our controlling shareholder and a net increase in bank loans by US\$471.99 million in 2004.

## Pledge of Assets

As at the balance sheet date, the Group pledged property, plant and equipment having a net book value of approximately US\$41.11 million (2003: US\$79.16 million) to secure general banking facilities granted to the Group.

In addition, 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\$53.13 million (2003: US\$50.00 million). The bank facilities were unutilised as at 31 December 2004 and 2003.

## Capital Commitments

As at the balance sheet date, the capital commitment of Group was US\$45.30 million (2003: US\$7.60 million).

## Significant Investments

In 2004 we had invested in our key sites in Europe, Asia and Americas to enhance our capabilities and capacities in the various regions to serve our customers. These investments were proven instrumental in winning more business and keep up the seamless working partnership with our key customers. We expect more such investments to continue into 2005.

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## Outlook

Looking beyond 2004, 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 share and businesses from our customers' outsourcing. We need to focus on effective execution of our business strategy, continuous improvement of our operations and selective investments in the strategic areas that will contribute to our long-term prosperity. We will carry out our success formula to further enhance our vertical integration capabilities and service quality to our customers.

## Employees

As at 31 December 2004, the Group had a total of 32,060 (2003: 17,092) employees. Total staff costs incurred during the year 2004 amounted to US\$225.38 million (year 2003: US\$54.42 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 ("Listing Rules") on the Stock Exchange.