

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 2004.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of the principal subsidiaries are set out in the financial statements on pages 44 to 46. 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 2004 are set out in the financial statements on page 20.

The directors do not recommend the payment of any dividends in respect of the year ended 31 December 2004.

RESERVES

Movements in reserves of the Group during the year are set out on page 23.

DISTRIBUTABLE RESERVES

As at 31 December 2004, the Company's reserves available for distribution amounted to US\$143,906,000.

FINANCIAL SUMMARY

A financial summary of the results and the balance sheet of the Group for the last four financial years are set out on page 66.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the year are set out in note 13 to the financial statements.

BANK LOANS

Details of bank loans are set out in note 21 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 (appointed on 1 December 2004)

Non-executive Directors

CHANG Ban Ja, Jimmy (appointed on 1 December 2004)
GOU Hsiao Ling (appointed on 1 December 2004)
LEE Jin Ming (appointed on 1 December 2004)
LU Fang Ming (appointed on 1 December 2004)

Independent non-executive Directors

LAU Siu Ki (appointed on 1 December 2004)
Edward Fredrick PENSEL (appointed on 1 December 2004)
MAO Yu Lang (appointed on 1 December 2004)

Having received written confirmation from each 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.

In accordance with article 115 of the articles of association of the Company, Messrs. Dai Feng Shuh, Chang Ban Ja, Jimmy, Lee Jin Ming, Lu Fang Ming, Lau Siu Ki, Edward Fredrick PenseL and Mao Yu Lang and Miss Gou Hsiao Ling shall hold office only until the next following annual general meeting of the Company and all of them will be eligible for re-election at that meeting.

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 2004, the Company had not received any notice of interests to be recorded under Section 352 of the Securities and Futures Ordinance, Chapter 571 of the laws of Hong Kong ("SFO") as the Company had not been listed on the Stock Exchange as at that date.

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

As at 31 December 2004, the Company had not received any notice of interests to be recorded under Section 336 of the SFO as the Company had not been listed on the Stock Exchange as at that date.

SHARE OPTION SCHEME AND SHARE SCHEME

A share option scheme ("Option Scheme") and a share scheme ("Share Scheme") were conditionally approved by a shareholder written resolution of the Company dated on 1 December 2004. They became unconditional upon (a) the Listing Committee granting approval for the listing of, and permission to deal in, the Shares which may be issued pursuant to the grant of Shares under the Option Scheme and the Share Scheme; and (b) the commencement of dealings in the Shares on the Stock Exchange on 3 February 2005.

Since the Option Scheme and the Share Scheme had only become unconditional upon the listing of the Company's shares on the Stock Exchange on 3 February 2005, no share option or shares was granted pursuant to the above schemes during the year and there are no outstanding share options under the Option Scheme as at 31 December 2004.

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.

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 other 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 9.87% 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.

SHARE OPTION SCHEME AND SHARE SCHEME (Continued)

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 date of grant of the option. 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 option 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.

Further 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 not exceeding 2% of the issued share capital of the Company as at the date of such meeting under the Share Scheme (the "Scheme Mandate").

As at 21 April 2005, the issued share capital of the Company comprised 6,926,501,025 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 138,530,020 Shares being allotted and issued under the Scheme Mandate. On the basis of the closing price of HK\$4.625 per Share as at 21 April 2005 and the Scheme Mandate being exercised in full, the aggregate market value of the 138,530,020 Shares to be allotted and issued pursuant thereto would be approximately HK\$640,701,342.50. 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.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, sales to the Group's five largest customers accounted for 95.25% of the Group's total sales for the year and sales to the Group's largest customer amounted to 59.25%. Purchases from the Group's five largest suppliers accounted for 50.34% of the total purchases for the year and purchase from the Group's largest supplier amounted to 37.96%.

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.

CONNECTED TRANSACTIONS

During 2004, the Company was not listed and did not have any connected transactions which were subject to the requirements of the Listing Rules.

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 a sufficient public float as required by the Listing Rules.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

The Company and its directors hereby state that, to the best of their knowledge, the Company has complied with the Code of Best Practice set out in Appendix 14 of the Listing Rules throughout the financial year ended 31 December 2004.

Note: Appendix 14 of the Listing Rules (Code of Best Practice) was replaced by the new Appendix 14 (Code on Corporate Governance Practices) on 1 January 2005.

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 2004. The Company did not have any listed securities before its shares were listed on the Stock Exchange on 3 February 2005.

PRE-EMPTIVE RIGHTS

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

AUDIT COMMITTEE

The Company has established an audit committee in accordance with the requirements of the Code on Corporate Governance Practices. 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 advice and comment to the Board. The audit committee comprises of three non-executive directors, two of whom are independent non-executive directors.

The audit committee has reviewed the audited financial results of the Group for the year ended 31 December 2004.

Report of the Directors

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

Samuel Wai Leung CHIN

Chairman and Chief Executive Officer

Hong Kong, 21 April 2005