1. REORGANISATION AND BASIS OF PREPARATION OF THE 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 ultimate holding company is Hon Hai Precision Industry Company Limited ("Hon Hai"), a company incorporated in the Republic of China and its shares are listed on the Taiwan Stock Exchange.

In preparation for the listing of the Company's shares on the Stock Exchange, the Company has undergone a group reorganisation (the "Group Reorganisation") pursuant to which the Company became the holding company of all the handset manufacturing and sales operations of Hon Hai. The Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the financial statements have been prepared using the principle of merger accounting. Details of the Group Reorganisation are set out in note 23.

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 12.

2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS/ADOPTION OF NEW ACCOUNTING STANDARD

Potential impact arising from the recently issued accounting standards

The International Accounting Standards Board (the "IASB") issued a number of new or revised International Accounting Standards ("IAS") and International Financial Reporting Standards (herein collectively referred to as the "New IFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these New IFRSs in the financial statements for the year ended 31 December 2004.

The Group has commenced considering the potential impact of these New IFRSs but is not yet in a position to determine whether these New IFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These New IFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

Adoption of new accounting standards

IFRS 3 "Business Combination" has been adopted for business combinations for which the agreement date is on or after 31 March 2004. The option of limited retrospective application of IFRS 3 has not been taken up, hence avoiding the need to restate past business combinations. After initial recognition, IFRS 3 requires goodwill acquired in a business combination to be carried at cost less any accumulated impairment losses. Under IAS 36 "Impairment of Assets" (as revised in 2004), impairment reviews are required annually, or more frequently if there are indications that goodwill might be impaired. IFRS 3 prohibits the amortisation of goodwill. An impairment loss of approximately US$1,403,000 has been recognised in the current year in accordance with IAS 36.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statement have been prepared on the historical cost basis. The financial statements have been prepared in accordance with IFRS and the principal accounting policies adopted are set out below.

Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

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.

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 the accounting policies used into line with those used by the Group.

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

Business combination

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured as 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 meeting the conditions for recognition under IFRS 3 are recognised at their 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 at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, after reassessment, the excess is recognised immediately in profit or loss.

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

Goodwill

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the net fair values of the identifiable assets, liabilities and contingent liabilities of the subsidiary recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

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

Revenue recognition

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

Service income is recognised when services are rendered.

Interest income is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

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

Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Gains and losses arising on exchange are included in net profit or loss for the period, except for exchange differences arising on non-monetary assets and liabilities where the changes in fair value are recognised directly to equity.

For consolidation purposes, the balance sheets of subsidiaries with reporting currencies other than US$ are translated into US$ at the exchange rates ruling at the balance sheet date whilst the income statement is translated at the average rates for the period. Exchange differences arising from such translation are dealt with as movements in reserves.

In order to hedge its exposure to certain foreign exchange risks, the Group enters into forward contracts and options (see below for details of the Group's accounting policies in respect of such derivative financial instruments).

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in net profit or loss in the period in which they are incurred.

Retirement benefit costs

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution plans where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit 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 net 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.

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

Taxation*(Continued)*

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases 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 negative 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.

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 profit 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 in the income statement, 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

Properties in the course of construction for production are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any identified impairment losses.

Depreciation is charged so as to write off the cost of assets, other than construction in progress, over their estimated useful lives after taking into account the residual value, using the straight-line method, over the following periods:

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

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

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

Land use rights

Land use rights in the People's Republic of China (the "PRC") are stated at cost less accumulated amortisation and any recognised impairment loss. The costs are amortised on a straight-line basis over the period for which the relevant land use rights have been granted to the Group.

Research and development expenditure

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

An internally-generated intangible asset arising from the Group's business development is recognised only if all of the following conditions are met:

- an asset is created that can be identified (such as software and new processes);
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

Internally-generated intangible assets are amortised on a straight-line basis over their useful lives. Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Impairment of assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) 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 (cash-generating unit) 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 (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the first-in, first-out basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

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.

Trade receivables

Trade receivables are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Investments

Investments are recognised on a trade-date basis and are initially measured at cost including transaction costs.

At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

Investments other than held-to-maturity debt securities are classified as either held-for-trading or available-for-sale, and are measured at subsequent reporting dates at fair value except for any financial assets that do not have a quoted market price in an active market and for which fair value cannot be reliably measured. Where securities are held for trading purposes, gains and losses arising from changes in fair value are included in net profit or loss for the period. For available-for-sale investments, gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for the period. For available-for-sale investments that do not have a quoted market price and the fair value cannot be reliably measured, the investment is measured at cost less impairment at subsequent reporting dates.

Trade payables

Trade payables are stated at their nominal value.

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

Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis and charged to the income statement using effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Equity instruments

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

Derivative financial instruments

The Group uses derivative financial instruments (primarily foreign currency forward contracts and interest rate swap contracts) to hedge its risks associated with foreign currency and interest rate fluctuations relating to certain firm commitments and forecasted transactions. Such derivatives are initially recorded at cost, if any, and are remeasured to fair value at subsequent reporting dates.

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity and the ineffective portion is recognised immediately in the income statement. If the cash flow hedge of a firm commitment or forecasted transaction results in the recognition of an asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in equity are included in the initial measurement of the asset or liability. For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognised in the income statement in the same period in which the hedged item affects net profit or loss.

Changes in the fair value of designated fair value hedges and derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net profit or loss for the year.

Derivatives embedded in other financial instruments or non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value with unrealised gains or losses reported in the income statement.

Provisions

Provisions for restructuring costs are recognised when the Group has a detailed formal plan for the restructuring that has been communicated to affected parties.

4. TURNOVER

Turnover represents the net amounts received and receivable for goods sold by the Group to outside customers, less returns and allowances. An analysis of the Group's turnover, by products, is as follows:

	2004 *US$'000*	2003 *US$'000*
Systems	1,597,349	255,156
Modules	1,710,921	835,467
	3,308,270	1,090,623

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

The Group's turnover and net profit 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.

INCOME STATEMENT

	Year ended 31 December 2004			
	Asia *US$'000*	Europe *US$'000*	America *US$'000*	Consolidated *US$'000*
TURNOVER				
External sales	1,217,527	351,773	1,738,970	3,308,270
RESULT	130,363	34,529	127,225	292,117
Unallocated corporate income				60,231
Unallocated corporate expenses				(157,247)
Profit from operations				195,101
Unallocated interest expenses on bank borrowings				(7,365)
Loss on disposal of subsidiaries				(605)
Profit before tax				187,131
Income tax expense				(5,812)
Profit after tax and before minority interests				181,319
Minority interests				—
Net profit for the year				181,319

5. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

	Year ended 31 December 2003			
	Asia	Europe	America	Consolidated
	US$'000	*US$'000*	*US$'000*	*US$'000*
TURNOVER				
External sales	739,843	138,528	212,252	1,090,623
RESULT	95,634	12,815	27,435	135,884
Unallocated corporate income				13,880
Unallocated corporate expenses				(43,768)
Profit from operations				105,996
Unallocated interest expenses on bank borrowings				(1,171)
Profit before tax				104,825
Income tax expense				(3,326)
Profit after tax and before minority interests				101,499
Minority interests				96
Net profit for the year				101,595

5. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

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

BALANCE SHEET

	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

	As at 31 December 2003			
	Asia	Europe	America	Consolidated
	US$'000	*US$'000*	*US$'000*	*US$'000*
ASSETS				
Segment assets	139,213	156,147	304,409	599,769
Unallocated corporate assets				472,087
Consolidated total assets				1,071,856
LIABILITIES				
Segment liabilities	—	59,844	147,433	207,277
Unallocated corporate liabilities				663,547
Consolidated total liabilities				870,824

5. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

OTHER INFORMATION

	Year ended 31 December 2004				
	Asia	Europe	America	Corporate	Consolidated
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Capital additions	—	37,947	28,863	156,652	223,462
Depreciation and amortisation	—	8,746	12,195	26,916	47,857
Impairment losses recognised in income	—	—	3,032	1,214	4,246
Gain (loss) on disposal of property, plant and equipment	—	3,967	2,146	(39)	6,074
Allowances for doubtful debts	—	—	445	(208)	237
Allowances for inventories	—	582	836	209	1,627

	Year ended 31 December 2003				
	Asia	Europe	America	Corporate	Consolidated
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Capital additions	—	22,922	29,887	101,959	154,768
Depreciation and amortisation	—	2,749	1,158	8,484	12,391
Impairment losses recognised in income	—	1,277	—	—	1,277
Gain (loss) on disposal of property, plant and equipment	—	1,211	—	(286)	925
Allowances for doubtful debts	—	—	—	262	262
Allowances for inventories	—	1,994	—	132	2,126

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:

	As at 31 December Carrying amount of segment assets		For the year ended 31 December Additions to property, plant and equipment	
	2004	2003	2004	2003
	US$'000	*US$'000*	*US$'000*	*US$'000*
Asia	999,697	642,855	156,652	101,959
Europe	305,453	138,789	37,947	22,922
America	811,771	287,306	28,863	29,887
	2,116,921	1,068,950	223,462	154,768

6. OTHER OPERATING INCOME

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

	2004	2003
	US$'000	*US$'000*
Interest on bank deposits	5,832	633
Exchange gain	—	440
Gain on disposal of property, plant and equipment	6,074	1,249
Service and subcontracting income	14,162	1,544
Sales of materials, scraps and moldings	28,558	9,360
Others	5,605	654
	60,231	13,880

7. RESTRUCTURING COSTS

	2004	2003
	US$'000	*US$'000*
Impairment loss recognised in respect of assets	—	1,277
Redundancy costs	—	1,000
	—	2,277

On 21 August 2003, Foxconn Finland Invest Oy entered into a sale and purchase agreement (the "Eimo Sale and Purchase Agreement") with certain former shareholders of Foxconn Oy (formerly Eimo Corporation) to acquire their shares in Foxconn Oy. The Eimo Sale and Purchase Agreement was completed on 22 October 2003.

Redundancy costs of approximately US$1,000,000 were incurred and an impairment loss of US$1,277,000 was recognised in respect of the carrying amounts of certain assets held by Foxconn Oy pursuant to the restructuring plan of Foxconn Oy.

8. PROFIT FROM OPERATIONS

	2004 US$'000	2003 US$'000
Profit from operations has been arrived at after charging (crediting):		
Allowance for doubtful debts	237	262
Allowance for inventories	1,627	2,126
Amortisation of land use rights, included in general and administrative expenses	66	12
Auditors' remuneration	430	133
Cost of inventories recognised as expenses	2,635,234	839,488
Depreciation of property, plant and equipment included in:		
- cost of sales	38,532	11,037
- general and administrative expenses	9,325	1,342
	47,857	12,379
Impairment loss recognised in respect of property, plant and equipment	2,843	—
Impairment loss recognised in respect of goodwill on acquisition of additional interest in a subsidiary	1,403	—
Net foreign exchange loss	5,126	3,224
Staff costs:		
Directors' remuneration	1,197	180
Retirement benefit scheme contributions (excluding directors)	10,982	4,238
Other staff costs	213,204	50,000
	225,383	54,418
Number of employees as at 31 December	32,060	17,092

9. DIRECTORS' REMUNERATION AND HIGHEST PAID EMPLOYEES

(i) Detail of directors' remuneration are as follows:

	2004	2003
	US$'000	*US$'000*
Non-executive directors		
Fees	6	—
Executive directors		
Fees	—	—
Salaries and other benefits	191	180
Retirement benefits scheme contributions	—	—
Performance-related incentive payments	1,000	—
	1,197	180

During the year, there were two executive directors with remuneration and details are disclosed above.

The remuneration of the directors are within the following bands:

	Number of directors	
	2004	2003
Nil to HK$1,000,000	7	1
HK$9,000,001 to HK$9,500,000	1	—
HK$12,000,001 to HK$12,500,000	1	—
	9	1

9. DIRECTORS' REMUNERATION AND HIGHEST PAID EMPLOYEES *(Continued)*

(ii) Employees

The emoluments of the highest paid individuals were as follows:

	2004 US$'000	2003 US$'000
Salaries and other benefits	533	682
Retirement benefits scheme contributions	—	—
Performance-related incentive payments	4,105	85
	4,638	767

Remuneration of the highest paid individuals falls within the following bands:

	Number of employees	
	2004	2003
Nil to HK$1,000,000	—	3
HK$1,000,001 to HK$1,500,000	—	2
HK$4,000,001 to HK$4,500,000	1	—
HK$4,500,001 to HK$5,000,000	1	—
HK$6,000,001 to HK$6,500,000	1	—
HK$9,000,001 to HK$9,500,000	1	—
HK$12,000,001 to HK$12,500,000	1	—
	5	5

The emoluments of the highest paid individuals included emoluments paid and payable to two (2003: one) executive directors for which detail are set out in note 8.

No remuneration was paid by the Group to the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. No directors of the Group had waived any remuneration during the year.

10. INCOME TAX EXPENSE

	2004	2003
	US$'000	US$'000
Current tax:		
PRC	6,619	2,185
Other jurisdictions	2,781	610
	9,400	2,795
Underprovision in prior years:		
PRC	172	—
Other jurisdictions	52	193
	224	193
Deferred tax (note 16):		
Current year	(3,466)	338
Attributable to a decrease in tax rate	(346)	—
	(3,812)	338
	5,812	3,326

10. INCOME TAX EXPENSE *(Continued)*

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.

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

	2004 *US$'000*	2003 *US$'000*
Profit before tax	187,131	104,825
Tax at the PRC income tax rate of 15% for the year	28,070	15,724
Effect of different tax rates of subsidiaries	390	465
Effect of tax exemptions granted to PRC subsidiaries	(20,748)	(17,178)
Tax effect of expenses not deductible for tax purpose	2,891	2,359
Tax effect of income not taxable for tax purpose	(1,381)	—
Tax effect of tax losses (utilised) not recognised	(3,288)	1,763
Decrease in opening deferred tax liabilities resulting from a decrease in applicable tax rate	(346)	—
Underprovision in prior years	224	193
Tax expense for the year	5,812	3,326

11. BASIC EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit for the year of US$181,319,000 (2003: US$101,595,000) and the weighted average number of 5,272,282,897 (2003: 2,892,306,702) shares in issue, 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.

Diluted earnings per share are not presented because there were no potential ordinary shares outstanding during both years.

12. SUBSIDIARIES

The Company has the following subsidiaries as at 31 December 2004:

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		Principal activities
				Directly	Indirectly	
Dynacept Corporation	Limited company	United States of America ("USA")	US$1,000	—	100%	Prototyping and development
Foxconn Pecs Kft (formerly "Eimo Kft")	Limited company	Hungary	EUR 735,000	—	100%	Manufacture of handsets
Executar International Limited	Limited company	Cayman Islands	US$152,781,656	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	DKK2,064,400	—	100%	Research and development
Foxconn EMEA Inc.	Limited company	BVI	US$100,000	100%	—	Trading of handsets
Foxconn Hungary Kft	Limited company	Hungary	HUF178,000,000	—	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 (note)	Limited company	Finland	EUR16,358,075	—	100%	Manufacture of handsets
富士康精密組件（北京）有限公司 (Foxconn Precision Component (Beijing) Co.Ltd., "Foxconn Beijing")	Wholly foreign owned enterprise	PRC	US$38,800,000	—	100%	Manufacture of handsets

12. 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		Principal activities
				Directly	Indirectly	
Foxconn Technology CZ s.r.o.	Limited company	Czech Republic	CZK1,000,000	—	98%	Inactive
Grand Champion Trading Limited ("Grand Champion")	Limited company	BVI	US$4,330,591	—	100%	Investment holding
宏訊電子工業（杭州）有限公司 (Honxun Electrical Industry (Hangzhou) Co., Ltd., "Honxun Electrical")	Equity joint venture	PRC	US$23,300,000	—	100%	Manufacture of handsets
S&B Industry Hold Co., LLC (formerly EIMO Americas Hold Co., LLC)	Limited company	USA	US$7,217,280	—	100%	Investment holding
S&B Industry Inc. (formerly EIMO Americas Inc.)	Limited company	USA	US$31,594,767	—	100%	Research and development
S&B Industry Technologies L.P. (formerly EIMO Americas Technologies L.P.)	Limited company	USA	US$7,218,280	—	100%	Manufacture of toolings
深圳富泰宏精密工業有限公司 (Shenzhen Futaihong Precision Industry Co. Ltd. "Shenzhen Futaihong")	Equity joint venture	PRC	US$38,520,000	—	100%	Manufacture of handsets
Success World Holdings Ltd.	Limited company	Hong Kong	HK$10,000	100%	—	Investment holding
優力通科技（杭州）有限公司 (Superior Communications (Hangzhou) Company Limited)	Wholly foreign owned enterprise	PRC	US$12,500,000	—	100%	Manufacture of handsets

12. 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		Principal activities
				Directly	Indirectly	
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
Transworld Holdings Limited	Limited company	Samoa	US$1,875,000	—	100%	Investment holding
Triple S Cosmoplast da Amazonia, Ltda.	Limited company	Brazil	R$1,464,790	—	100%	Manufacture of handsets
Wide Ranging Investments Limited ("Wide Ranging")	Limited company	BVI	US$11,184,000	—	100%	Investment holding

Note: On 31 July 2004, Foxconn Oy (formerly Eimo Corporation) merged with Foxconn Finland Invest Oy, a formerly indirectly wholly-owned subsidiary incorporated in Finland on 20 August 2003.

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

13. 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 differences	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)
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
DEPRECIATION AND IMPAIRMENT					
At 1 January 2004	2,710	19,230	705	—	22,645
Exchange differences	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
NET BOOK VALUES					
At 31 December 2004	116,932	272,840	12,966	18,935	421,673
At 31 December 2003	61,705	166,006	5,232	28,888	261,831

The impairment loss on property, plant and equipment arose in connection with the Group's restructuring plan in China and America.

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$7,548,000 (2003: US$6,037,000). 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 33).

14. LAND USE RIGHTS

	2004	2003
	US$'000	*US$'000*
COST		
Balance at 1 January	626	626
Additions	2,439	—
Balance at 31 December	3,065	626
AMORTISATION		
Balance at 1 January	27	15
Charge for the year	66	12
Balance at 31 December	93	27
CARRYING AMOUNTS	2,972	599

Land use rights in the PRC are amortised over their relevant lease term ranging from 46 to 50 years.

15. LONG TERM INVESTMENTS

	2004	2003
	US$'000	*US$'000*
Unquoted overseas investments, at cost	138	132

The fair value of these available-for-sale investments cannot be reliably determined. They are stated at cost less impairment loss.

16. DEFERRED TAXATION

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

	Accelerated tax depreciation	Tax losses	Prepaid expenses	Others	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
At 1 January 2003	—	—	—	—	—
Charge (credit) to income for the year	459	(4,910)	4,880	(91)	338
Acquisitions of subsidiaries	5,175	(2,548)	—	—	2,627
Exchange differences	527	6	(242)	(1)	290
At 31 December 2003	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)

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:

	2004	2003
	US$'000	*US$'000*
Deferred tax assets	**(2,643)**	(2,906)
Deferred tax liabilities	**2,233**	6,161
	(410)	3,255

At the balance sheet date, the Group has unused tax losses of US$36,282,000 (2003: US$36,964,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately US$34,468,000 (2003: US$24,190,000) of such losses. No deferred tax asset has been recognised in respect of the remaining US$1,814,000 (2003: US$12,774,000) due to the unpredictability of future profit streams. The unrecognised tax losses will expire before 2009.

17. INVENTORIES

	2004 *US$'000*	2003 *US$'000*
Raw materials	264,327	128,929
Work-in-progress	27,999	39,553
Finished goods	187,867	41,252
	480,193	209,734

Inventories carried at net realisable value were as follows:

	2004 *US$'000*	2003 *US$'000*
Raw materials	2,294	—
Work-in-progress	—	—
Finished goods	—	122
	2,294	122

18. TRADE RECEIVABLES

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:

	2004 *US$'000*	2003 *US$'000*
0-90 days	655,115	277,142
91-180 days	2,999	901
181-360 days	456	161
Over 360 days	33	—
	658,603	278,204

19. OTHER FINANCIAL ASSETS

Trade and other receivables

Trade and other receivables at the balance sheet date comprise amounts trade receivables of approximately US$658,603,000 (2003: US$278,204,000), other receivables of approximately US$18,531,000 (2003: US$22,585,000) and deposits and prepayments of US$15,199,000 (2003: US$7,886,000).

The directors consider that the carrying amount of trade and other receivables approximates their fair value.

Bank balances and cash

The amount comprises cash held by the Group and short-term bank deposits, majority are denominated in Renminbi and not freely convertible in the market, with an original maturity of three months or less. The carrying amount of these assets approximates their fair value.

Credit risk

The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables, estimated by the Group's management based on prior experience and their assessment of the background of the customers.

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

The Group's sales are made to, and the trade receivables at the balance sheet dates are spread over, a small number of customers, majority of which are international key handsets manufacturers.

20. TRADE PAYABLES

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

	2004 *US$'000*	2003 *US$'000*
0-90 days	693,753	355,218
91-180 days	1,573	5,139
181-360 days	1,936	494
Over 360 days	80	266
	697,342	361,117

21. BANK LOANS

	2004 US$'000	2003 US$'000
The borrowings are repayable as follows:		
On demand or within one year	633,956	136,094
In the second year	260	18,944
In the third to fifth years inclusive	850	8,637
After five years	2,450	1,848
	637,516	165,523
Less: Amount due for settlement within twelve months (shown under current liabilities)	633,956	136,094
Amount due for settlement after twelve months	3,560	29,429
Analysed as:		
Secured	3,810	43,453
Unsecured	633,706	122,070
	637,516	165,523

	2004 US$'000	2003 US$'000
Analysis of borrowings by currency:		
US$	637,516	138,070
Euro	—	27,453
	637,516	165,523

As at 31 December 2004, bank borrowings of US$25,500,000 bore interest at 0.45 per cent plus LIBOR per annum. The remaining bank loans as at 31 December 2004 and all bank loans at 31 December 2003 were mainly 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 the balance sheet dates (see note 33).

The directors consider that the carrying amount of bank loans approximates to their fair value.

22. SHARE CAPITAL

	Number of shares	Amount
		US$'000
Authorised:		
Ordinary shares of US$1.00 each		
On incorporation	50,000	50
Increased on 29 January 2003	38,750,000	38,750
Balance at 31 December 2003	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	19,200,000,000	—
Balance at 31 December 2004	20,000,000,000	800,000
Issued and fully paid:		
Ordinary shares of US$1.00 each		
On incorporation and balance at 1 January 2003	1	—
Increased on 29 January 2003	38,799,999	38,800
Balance at 31 December 2003	38,800,000	38,800
Increased on 22 March 2004	1	—
Increased on 31 March 2004	35,143,288	35,143
Increased 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	5,731,200,024	—
Balance at 31 December 2004	5,970,000,025	238,800

22. SHARE CAPITAL *(Continued)*

On 29 January 2003, the Company issued and allotted a total of 38,799,999 shares of US$1.00 each at par to its immediate holding company.

Pursuant to the Group Reorganisation (see note 23) on 22 March 2004, the Company issued and allotted one share of US$1.00 to its immediate holding company.

On 31 March 2004, the Company issued and allotted 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.

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 accumulated 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.

The paid-in capital of the Group disclosed in the consolidated balance sheet as at 31 December 2003 represent the aggregate capital amount of the Company, Grand Champion and Wide Ranging. Grand Champion and Wide Ranging are subsidiaries of the Company as at 31 December 2004 pursuant to the Group Reorganisation (see note 23).

23. GROUP REORGANISATION

On 22 March 2004, the Company entered into an agreement with Foxconn (Far East) Limited, the immediately holding company of the Company and also a wholly-owned subsidiary of Hon Hai, in respect of the sale and purchase of shares in Grand Champion and Wide Ranging. 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"). Grand Champion and Wide Ranging are the minority shareholders holding equity interests of 25% and 48% in Shenzhen Futaihong and Honxun Electrical, respectively. Accordingly, Shenzhen Futaihong and Honxun Electrical became wholly-owned subsidiaries of the Company pursuant to the Group Reorganisation.

24. 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.

The Company's reserves available for distribution represent the share premium and accumulated profits. Under the Companies Law of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum or Articles of Association and provided that immediately following the distribution or dividend the Company is able to pay its debts as they fall due in the ordinary course of business. Accordingly, the directors are of the view that the Company had reserves of approximately US$143,906,000 (2003: Nil) available for distribution to shareholders as at 31 December 2004.

25. OTHER FINANCIAL LIABILITIES

Trade and other payables

The amount principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 30 to 90 days. The directors consider that the carrying amount of trade and other payables approximates to their fair value.

26. DERIVATIVE FINANCIAL INSTRUMENTS

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.

	2004 *US$'000*	2003 *US$'000*
Forward foreign exchange contracts	4,642	23,632

As at 31 December 2004, the fair value of the Group's currency derivatives is estimated to be approximately US$166,000 (2003: US$49,000).

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$4.5 million (2003: US$22.3 million) have fixed interest payments at an average rate of 4 per cent for periods up 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 2004 is estimated at approximately US$181,000 (2003: US$760,000). These amounts are based on market values of equivalent instruments at the balance sheet date.

27. ACQUISITION OF SUBSIDIARIES

Pursuant to a share purchase agreement entered into on 1 April 2003, the Group acquired Foxconn Finland Ltd. Oy from a subsidiary of Hon Hai at the consideration of approximately US$59,500 (see note 31). Foxconn Finland Ltd. Oy was voluntarily wound up on 31 May 2004.

Pursuant to the completion of the Eimo Sale and Purchase Agreement and Eimo Public Offer as disclosed in the section headed "Business - History and Development" in the Company's prospectus dated 24 January 2005, the Group completed the acquisition of Foxconn Oy on 22 October 2003 and acquired 97% of the issued share capital of Foxconn Oy for consideration of approximately US$76,248,000. Foxconn Oy was delisted from the Helsinki Stock Exchange on 22 January 2004 subsequent to its acquisition by the Group.

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

27. ACQUISITION OF SUBSIDIARIES *(Continued)*

All these transactions were carried out after negotiations between the Group and the respective parties and have been accounted for by the purchase method of accounting.

	2004 *US$'000*	2003 *US$'000*
Net assets acquired:		
Property, plant and equipment	5,133	81,891
Long term investments	—	121
Deferred tax assets	—	2,436
Inventories	—	26,470
Trade receivables	—	38,111
Deposits, prepayments and other receivables	1,193	10,606
Bank balances and cash	3,052	13,192
Trade payables	—	(18,548)
Other payables and accrued expenses	(4,378)	(21,614)
Bank loans	—	(49,241)
Minority interests	—	(2,053)
Deferred tax liabilities	—	(5,063)
	5,000	76,308
Satisfied by:		
Cash	5,000	76,308
Net cash outflow arising on acquisition:		
Cash consideration	5,000	76,308
Bank balances and cash acquired	(3,052)	(13,192)
	1,948	63,116

The subsidiaries being acquired of during 2003 contributed approximately US$3,517,000 to the Group's net operating cash flows, contributed approximately US$3,909,000 in respect of investing activities, and paid approximately US$10,509,000 in respect of financing activities for that year. These subsidiaries contributed approximately US$38,165,000 of revenue and US$3,499,000 of net loss for the period between the date of acquisition and 31 December 2003.

27. ACQUISITION OF SUBSIDIARIES *(Continued)*

The subsidiaries being acquired of during 2004 contributed approximately US$1,798,000 to the Group's net operating cash outflows and paid approximately US$4,266,000 in respect of investing activities during that period. These subsidiaries contributed approximately US$791,000 of revenue and US$754,000 of net loss for the year between the date of acquisition and 31 December 2004.

28. 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:

	Amount *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

The subsidiaries being disposed of during the year 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 the year.

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

29. CAPITAL COMMITMENTS

	2004 *US$'000*	2003 *US$'000*
Commitments for the acquisition of property, plant and equipment	45,304	7,602

30. OPERATING LEASE ARRANGEMENTS

The Group as lessee

	2004 *US$'000*	2003 *US$'000*
Minimum lease payments under operating leases recognised for the year	4,743	2,483

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

	2004 *US$'000*	2003 *US$'000*
Within one year	1,879	2,024
In the second to fifth years inclusive	945	1,155
	2,824	3,179

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

31. RELATED PARTY TRANSACTIONS

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

	NOTES	2004 *US$'000*	2003 *US$'000*
Ultimate holding company			
Sales of goods	(i)	1,182	388
Purchase of goods	(i)	12,753	288
Purchase of property, plant and equipment	(i)	25,382	12,455
Sales of property, plant and equipment	(i)	2,042	136
Subsidiaries and associates of Hon Hai			
Sales of goods	(i)	4,239	5,711
Purchase of goods	(i)	81,290	32,177
Purchase of property, plant and equipment	(i)	11,115	3,811
Sales of property, plant and equipment	(i)	2,511	6,974
Rental paid	(ii)	547	201
Subcontracting income	(iii)	2,679	564
Subcontracting expense	(iii)	6,602	4,494
Service fee expense	(iv)	21,966	15,196

Notes:

(i) Sales and purchases of goods and property, plant and equipment were carried out after negotiation between the Group and respective related parties with reference to the estimated market value.

(ii) Rental paid is based on the relevant lease term which has been determined and negotiated with reference to the estimated market value when the tenancy agreement was agreed between the parties.

(iii) Subcontracting income and expense were determined and negotiated between the Group and respective related parties with reference to the estimated market value.

(iv) Service fee was charged on a cost reimbursement basis.

During the year, 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.

31. RELATED PARTY TRANSACTIONS *(Continued)*

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

	2004 US$'000	2003 US$'000
Trade receivables:		
Ultimate holding company	2,094	260
Subsidiaries and associates of Hon Hai	1,377	867
	3,471	1,127
Other receivables:		
Ultimate holding company	60	68
Subsidiaries and associates of Hon Hai	705	8,198
	765	8,266
	4,236	9,393
Trade payables:		
Ultimate holding company	1,730	8,672
Subsidiaries and associates of Hon Hai	27,176	14,955
	28,906	23,627
Other payables:		
Ultimate holding company	7,673	2,986
Subsidiaries and associates of Hon Hai	15,673	201,381
	23,346	204,367
Loans from related parties:		
Subsidiaries of Hon Hai	—	74,253
	52,252	302,247

Loans from related parties were classified as non-current at 31 December 2003 as the directors were of the opinion that the related parties will not demand repayment within twelve months of 31 December 2003. The amounts were unsecured and interest-free. The loans were fully repaid during the year.

31. RELATED PARTY TRANSACTIONS *(Continued)*

Other balances due from/to related parties are unsecured, interest free and have no fixed terms of repayment.

Pursuant to a sale and purchase agreement dated 1 April 2003, the Group also acquired a company, namely Foxconn Finland Ltd. Oy, from Hon Hai Group at the consideration of approximately US$59,500.

32. 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.

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.

33. PLEDGE OF ASSETS

As at the balance sheet date, the Group pledged property, plant and equipment having a net book value of approximately US$41,106,000 (2003: US$79,161,000) 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$53,128,000 (2003: US$50,000,000). The bank facilities were unutilised as at 31 December 2004 and 2003.

34. BALANCE SHEET OF THE COMPANY

Certain balance sheet information of the Company is disclosed as follows:

	NOTE	2004 US$'000	2003 US$'000
Non-current assets			
Unlisted investments in subsidiaries, at cost		152,923	38,911
Current assets			
Other receivables		411	3,500
Amounts due from subsidiaries		411,615	112,252
Bank balances and cash		66	—
		412,092	115,752
Current liabilities			
Amounts due to subsidiaries		43,510	41,610
Other payables and accrued expenses		393	—
Unsecured short-term bank loans		138,406	—
		182,309	41,610
Net current assets		229,783	74,142
		382,706	113,053
Capital and reserves			
Share capital	22	238,800	38,800
Reserves		143,906	—
		382,706	38,800
Non-current liabilities			
Loans from related parties		—	74,253
		382,706	113,053

34. BALANCE SHEET OF THE COMPANY *(Continued)*

Movement of the Company's reserves is as follows:

	Share premium	Accumulated profits	Total
	US$'000	*US$'000*	*US$'000*
Balance at 1 January 2003 and 31 December 2003	—	—	—
Issue of shares	197,857	—	197,857
Capitalisation issue of shares	(67,877)	(96,980)	(164,857)
Net profit for the year	—	110,906	110,906
Balance at 31 December 2004	129,980	13,926	143,906

35. SUBSEQUENT EVENTS

The following events took place subsequent to 31 December 2004:

(a) Pursuant to the Company's international offering, the Company issued 956,501,000 shares of US$0.04 each for consideration of HK$3.88 per share. The Company's shares were listed on the Stock Exchange on 3 February 2005.

(b) Pursuant to a share option 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 "Option Scheme"), the Company may grant options to the directors, employees of the Company or its subsidiaries or third party service providers including employees of Hon Hai and its other subsidiaries, to subscribe for shares in the Company with initial payment of HK$1.00 upon each grant of options offered and the options granted must be taken up within 30 days from the date of grant. The exercise price of the share option will be determined at the higher of the average of closing prices of Company's on the Stock Exchange on the five trading days immediately preceding the date of grant of the option; the closing price of the Company's shares on the Stock Exchange on the date of grant; and the nominal value of the shares.

The share options are exercisable at any time for a period to be determined by the directors, which shall not be more than 10 years from the date of grant.

The maximum number of shares in respect of which options may be granted under the Option Scheme shall not exceed 10% of the number of shares to be issued by the Option Scheme and other option scheme and the number of issued shares of the Company from time to time and no grantee shall be granted an option which, if all the options granted to the employee (including both exercised and outstanding options) in any 12 months period up to the date of grant are exercised in full, would result in such person's maximum entitlement exceeding 1% of the number of issued shares of the Company.

The Option Scheme became unconditional upon the commencement of dealings in the Company's shares on the Stock Exchange on 3 February 2005. No share options have been granted up to the date of this report.

35. SUBSEQUENT EVENTS *(Continued)*

(c) Pursuant to a share scheme approved by a 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.

The Share Scheme became unconditional upon the commencement of dealings in the Company's shares on the Stock Exchange on 3 February 2005. No shares in the Company were issued pursuant to the Share Scheme up to the date of its report.