NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2005

1. REORGANISATION AND BASIS OF PREPARATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability. 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") in March 2004 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 condensed financial statements for the six months ended 30 June 2004 have been prepared using the principle of merger accounting. Details of the Group Reorganisation are set out in note 23 to the Group's annual financial statements for the year ended 31 December 2004.

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 and with International Accounting Standard 34 *Interim Financial Reporting*.

2. 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 2004 except as described below.

2. ACCOUNTING POLICIES *(Continued)*

In the current period, the Group has adopted all of the new and revised International Accounting Standards ("IASs"), International Financial Reporting Standards ("IFRSs") and International Financial Reporting Interpretations ("IFRICs") issued by the International Accounting Standards Board (the "IASB") and the International Financial Reporting Interpretations Committee of the IASB that are relevant to its operations and effective for accounting periods beginning on 1 January 2005. The adoption of these new and revised standards and interpretations has resulted in changes to the Group's accounting policies in the following areas that have affected the amounts reported for the current or prior periods:

- share-based payments (IFRS 2); and
- goodwill (IFRS 3)

The impact of these changes in accounting policies is discussed in details later in this note.

At the date of authorisation of these financial statements, the following IFRS, IAS and IFRIC were in issue but not yet effective:

IAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
IAS 39 (Amendment)	The Fair Value Option
IAS 39 (Amendment)	Financial Guarantee Contracts
IFRS 6	Exploration for and Evaluation of Mineral Resources
IFRS 7	Financial Instruments: Disclosures
IFRIC 4	Determining whether an Arrangement contains a Lease
IFRIC 5	Right to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

The directors anticipate that the adoption of these IFRS, IAS and IFRIC in future periods will have no material impact on the financial statements of the Group.

2. ACCOUNTING POLICIES *(Continued)*

Share-based payment

In the current period, the Group has applied IFRS 2 *Share-based Payment* which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of IFRS 2 on the Group is in relation to the expensing of the fair value of directors' and employees' share options of the Company determined at the date of grant of the share options over the vesting period. The Group will apply IFRS 2 to share options granted on or after 1 January 2005. The relevant transitional provisions require IFRS 2 to be retrospectively applied to share options that were granted after 7 November 2002 and had not yet vested on 1 January 2005. The Group did not have any such share options at 1 January 2005 and no share options have ever been granted.

Business combinations

In the current period, the Group has applied IFRS 3 *Business Combinations*, which is effective for business combinations for which the agreement date is on or after 31 March 2004. The principal effects of the application of IFRS 3 to the Group are summarised below:

Goodwill

IFRS 3 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, thus avoiding the need to restate past business combinations.

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 value of the identifiable assets, liabilities and contingent liabilities of the subsidiary recognised at the date of acquisition. 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 at least annually/in the financial year in which the acquisition takes place, or more frequently if there are indications that goodwill might be impaired. IFRS 3 prohibits the amortisation of goodwill. The Group did not have any goodwill arising from acquisitions before 1 January 2005. This change in accounting policy does not have material effect to the Group's results for the current period.

3. BUSINESS SEGMENTS

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

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

	Six months ended	
	30.6.2005	30.6.2004
	US$'000	US$'000
	(unaudited)	(unaudited)
EXTERNAL SALES		
Asia	**892,068**	453,120
Europe	**406,243**	96,634
America	**1,050,061**	737,686
Total	**2,348,372**	1,287,440
RESULTS		
Asia	**95,874**	60,557
Europe	**33,880**	6,553
America	**118,222**	45,523
	247,976	112,633
Unallocated corporate income	**22,953**	27,688
Unallocated corporate expenses	**(101,620)**	(51,070)
Unallocated interest expenses on bank borrowings	**(6,640)**	(3,278)
Loss on disposal of subsidiaries	**–**	(605)
Profit before tax	**162,669**	85,368
Income tax (expense) credit	**(15,813)**	2,937
Profit for the period	**146,856**	88,305

4. PROFIT BEFORE TAX

	Six months ended 30.6.2005 US$'000 (unaudited)	Six months ended 30.6.2004 US$'000 (unaudited)
Profit before tax has been arrived at after charging (crediting):		
Allowance for inventories	**9,051**	335
Allowance for doubtful debts	**435**	55
Amortisation of prepaid lease payments, included in general and administrative expenses	**31**	32
Cost of inventories recognised as expenses	**1,754,543**	994,904
Depreciation of property, plant and equipment included in:		
cost of sales	**23,851**	19,142
general and administrative expenses	**7,512**	1,589
	31,363	20,731
Interest income from bank	**(4,194)**	(2,776)

5. INCOME TAX (EXPENSE) CREDIT

	Six months ended	
	30.6.2005	30.6.2004
	US$'000	US$'000
	(unaudited)	(unaudited)
Current tax:		
The PRC	**(11,005)**	(3,032)
Other jurisdictions	**(1,917)**	(207)
	(12,922)	(3,239)
Underprovision in prior years:		
Other jurisdictions	**(64)**	(122)
Deferred tax:		
Current period (Note 11)	**(2,827)**	5,965
Attributable to an increase in tax rate	**–**	333
	(2,827)	6,298
	(15,813)	2,937

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.

5. **INCOME TAX (EXPENSE) CREDIT** *(Continued)*

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

	Six months ended	
	30.6.2005	30.6.2004
	US$'000	US$'000
	(unaudited)	(unaudited)
Profit before tax	**162,669**	85,368
Tax at the PRC income tax rate of 15% for the period	**24,400**	12,805
Effect of different tax rates of subsidiaries	**1,630**	30
Effect of tax exemptions and concessions granted to PRC subsidiaries	**(10,731)**	(12,089)
Tax effect of expenses not deductible for tax purpose	**2,511**	852
Tax effect of income not taxable for tax purpose	**(4,075)**	(5,129)
Tax effect of tax losses (utilised) not recognised	**(328)**	805
Decrease in opening deferred tax liabilities resulting from a decrease in applicable tax rate	**–**	(333)
Decrease in opening deferred tax assets resulting from dispute with tax bureau	**2,342**	–
Underprovision in prior periods	**64**	122
Tax expense (credit) for the period	**15,813**	(2,937)

6. DIVIDEND

No dividend was paid during the period. The directors do not recommend the payment of an interim dividend for the period.

7. EARNINGS PER SHARE

The calculation of the basic earnings per share for the six months period ended 30 June 2005 is based on the profit for the period of US$146,856,000 (2004: US$88,305,000) and the weighted average number of 6,744,884,000 (2004: 4,566,899,000) shares in issue during the period. The basic earnings per share for the six months period ended 30 June 2004 has been adjusted for the effect of 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 on 9 August 2004 and 1 December 2004, respectively.

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

8. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment of approximately US$123,643,000 (2004: US$87,851,000).

In addition, the Group disposed of certain property, plant and equipment with a carrying amount of US$9,736,000 (2004: US$5,526,000) for proceeds of US$10,960,000 (2004: US$8,757,000), resulting in a profit on disposal of US$1,224,000 (2004: US$3,231,000) for the period.

9. GOODWILL

	30.6.2005
	US$'000
At 1 January 2005	–
Arising on acquisition of a subsidiary	46,469
At 30 June 2005	46,469

10. AVAILABLE-FOR-SALE INVESTMENTS/INVESTMENTS HELD FOR TRADING

During the six months ended 30th June, 2005, the Group acquired available-for-sale investments and investments held for trading of US$955,000 and US$13,182,000 respectively, through the acquisition of CMCS (see note 16).

The investments held for trading represents investment funds quoted in Taiwan. The available-for-sale investments represents unquoted investments that are stated at cost less impairment loss since their fair value cannot be reliably determined.

11. DEFERRED TAXATION

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

	Accelerated tax depreciation	Tax losses	Prepaid expenses	Others	Total
	US$'000	US$'000	US$'000	US$'000	US$'000
At 1 January 2004	6,161	(7,452)	4,638	(92)	3,255
Credit to income for the period	(2,577)	(800)	(2,198)	(390)	(5,965)
Exchange differences	(158)	247	(74)	3	18
Effect of change in tax rate – (credit) charge to the income statement	(617)	284	–	–	(333)
At 30 June 2004	2,809	(7,721)	2,366	(479)	(3,025)
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)

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

11. DEFERRED TAXATION *(Continued)*

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:

	30.6.2005	31.12.2004
	US$'000	US$'000
	(unaudited)	(audited)
Deferred tax assets	**(3,176)**	(2,643)
Deferred tax liabilities	**2,077**	2,233
	(1,099)	(410)

At 30 June 2005, the Group has unused tax losses of US$16,580,000 (31.12.2004: US$36,282,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately US$16,300,000 (31.12.2004: US$34,468,000) of such losses. No deferred tax asset has been recognised in respect of the remaining US$280,000 (31.12.2004: US$1,814,000) due to the unpredictability of future profit streams. The unrecognised tax losses will expire before 2009.

12. 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:

	30.6.2005	31.12.2004
	US$'000	US$'000
	(unaudited)	(audited)
0-90 days	**767,235**	655,115
91-180 days	**6,002**	2,999
181-360 days	**1,639**	456
Over 360 days	**–**	33
	774,876	658,603

13. TRADE PAYABLES

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

	30.6.2005	31.12.2004
	US$'000	US$'000
	(unaudited)	(audited)
0-90 days	**623,811**	693,753
91-180 days	**1,409**	1,573
181-360 days	**4,611**	1,936
Over 360 days	**1,054**	80
	630,885	697,342

14. SHARE CAPITAL

	Number of shares	Amount US$'000
Authorised:		
Ordinary shares of US$1.00 each		
Balance at 1 January 2004	38,800,000	38,800
Increased on 22 March 2004	1	–
Increased on 31 March 2004	200,000,000	200,000
Increased on 30 August 2004	561,199,999	561,200
Subdivision of shares of US$1.00 each into 25 shares of US$0.04 each on 1 December 2004	19,200,000,000	–
Balance at 31 December 2004 and 30 June 2005	20,000,000,000	800,000
Issued and fully paid:		
Ordinary shares of US$1.00 each		
Balance at 1 January 2004	38,800,000	38,800
Issued on 22 March 2004	1	–
Issued on 31 March 2004	35,143,288	35,143
Capitalisation issue on 9 August 2004	164,856,712	164,857
Subdivision of shares of US$1.00 each into 25 shares of US$0.04 each on 1 December 2004	5,731,200,024	–
Balance at 31 December 2004	5,970,000,025	238,800
Issued on 2 February 2005	869,400,000	34,776
Issued on 28 February 2005	87,101,000	3,484
Balance at 30 June 2005	6,926,501,025	277,060

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

15. 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 the Company incorporated in Hong Kong. The net assets of these subsidiaries at the date of disposal were as follows:

	US$'000 (unaudited)
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 disposed of during the prior period contributed approximately US$926,000 to the Group's net operating cash outflows and paid approximately US$1,005,000 in respect of investing activities during that period.

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

16. ACQUISITION OF SUBSIDIARIES

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.

On 12 May 2005, Transworld Holdings Limited entered into two sale and purchase agreements to acquire a 56.48% interest in Chi Mei Communication Systems, Inc. ("CMCS"). The acquisition of CMCS was completed after approval was obtained from the Investment Commission of the Ministry of Economic Affairs of Taiwan on 30 May 2005.

16. ACQUISITION OF SUBSIDIARIES *(Continued)*

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

	Six months ended 30.6.2005 US$'000 (unaudited)	Six months ended 30.6.2004 US$'000 (unaudited)
Net assets acquired:		
Property, plant and equipment	**29,375**	5,133
Available-for-sale investments	**955**	–
Deferred tax assets	**3,121**	–
Inventories	**19,295**	–
Trade receivables	**14,691**	–
Deposits, prepayments and other receivables	**11,065**	1,193
Investments held for trading	**13,182**	–
Bank balances and cash	**4,678**	3,052
Trade payables	**(16,206)**	–
Other payables and accrued expenses	**(14,747)**	(4,378)
Tax payable	**(1,105)**	–
Bank loans	**(5,965)**	–
Minority interests	**(25,389)**	–
Net assets acquired	**32,950**	5,000
Goodwill arising on the acquisition	**46,469**	–
	79,419	5,000
Total consideration, satisfied by:		
Cash	**79,419**	5,000
Net cash outflow arising on acquisition:		
Cash consideration paid	**79,419**	5,000
Bank balances and cash acquired	**(4,678)**	(3,052)
	74,741	1,948

16. ACQUISITION OF SUBSIDIARIES *(Continued)*

The directors have completed an evaluation of the fair value of assets and liabilities acquired pursuant to the acquisition of CMCS and concluded that the carrying amount of the net assets acquired approximates their fair value.

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

The subsidiaries being acquired of during the six months ended 30 June 2004 contributed approximately US$175,000 of revenue and net loss of US$281,000 for the period between the date of acquisition and 30 June 2004. For the six months ended 30 June 2005, CMCS did not make any significant contribution to the Group's revenue and net profit since the completion date of the acquisition to 30 June 2005.

If the acquisitions had been completed on 1 January 2005, total group turnover for the six months period ended 30 June 2005 would have been US$2,455,081,000, and the profit for the period attributable to equity holders of the parent would have been US$147,084,000. The proforma information is for illustrative purposes only and is not necessarily an indicative turnover and results of the Group that actually would have been achieved had the acquisition been completed on 1 January 2005, nor is it intended to be a projection of future results.

17. COMMITMENTS

	30.6.2005	31.12.2004
	US$'000	US$'000
	(unaudited)	(audited)
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	**42,895**	45,304
Commitment to prepaid lease payments	**6,069**	–
	48,964	45,304

18. RELATED PARTY DISCLOSURES

During the period, 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:

	Six months ended	
	30.6.2005	30.6.2004
	US$'000	US$'000
	(unaudited)	(unaudited)
Ultimate holding company, Hon Hai:		
Sales of goods	**316**	500
Purchase of goods	**6,410**	3,100
Purchase of property, plant and equipment	**979**	14,364
Sales of property, plant and equipment	**2,859**	–
Subsidiaries and associates of Hon Hai:		
Sales of goods	**6,853**	2,908
Purchase of goods	**84,303**	23,424
Purchase of property, plant and equipment	**5,082**	5,614
Sales of property, plant and equipment	**3,367**	2,058
Rental paid	**595**	100
Subcontracting income	**1,982**	289
Subcontracting expense	**6,377**	2,545
Research and development service fee	**1,403**	300
Other service fee expense	**9,182**	7,943

18. RELATED PARTY DISCLOSURES *(Continued)*

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

	30.6.2005	31.12.2004
	US$'000	US$'000
	(unaudited)	(audited)
Trade receivables:		
Ultimate holding company	**596**	2,094
Subsidiaries and associates of Hon Hai	**8,205**	1,377
	8,801	3,471
Other receivables:		
Ultimate holding company	**193**	60
Subsidiaries and associates of Hon Hai	**2,351**	705
	2,544	765
	11,345	4,236
Trade payables:		
Ultimate holding company	**4,125**	1,730
Subsidiaries and associates of Hon Hai	**63,659**	27,176
	67,784	28,906
Other payables:		
Ultimate holding company	**4,587**	7,673
Subsidiaries and associates of Hon Hai	**8,766**	15,673
	13,353	23,346
	81,137	52,252

The amounts are unsecured, interest free and have no fixed terms of repayment.

19. EVENT AFTER THE BALANCE SHEET DATE

The Company entered into subscription agreements with a director and certain employees of CMCS (the "Subscribers") on 3 August 2005, pursuant to which the Company has agreed to allot and issue an aggregate of 26,915,000 new shares in the Company in cash at a subscription price of HK$5.065 per each new share. The new shares were allotted to the Subscribers on 19 August 2005.

Transworld Holdings Limited also entered into sale and purchase agreements with the Subscribers on the same date to acquire 19,118,000 shares in CMCS held by the Subscribers at a consideration of NT$29.5 for each share in CMCS. Pursuant to this acquisition, the Company's equity interest in CMCS increased from 56.48% to 69.23%. Completion of the sale and purchase agreements took place after approval was obtained from the Investment Commission of the Ministry of Economic Affairs of Taiwan. The total consideration of approximately US$17,710,000 was settled in cash upon completion. The acquisition was completed on 8 August 2005.