MANAGEMENT DISCUSSION AND ANALYSIS

Review of results and operations

For the six months ended 30 June 2005, our Group recorded a 82% year-on-year increase in consolidated turnover to US$2,348 million (2004: US$1,287 million). Profit before tax for the period was US$163 million, representing 92% growth over the US$85 million profit before tax for the same period last year. Basic earnings per share for the period were US 2.18 cents.

Despite the intensifying competitive global environment, the Company has continued to improve its position among the leaders of handset manufacturing services providers. Our eCMMS model (e-enabled CMMS model) and our integration of mechanical and electrical engineering capabilities are instrumental in our ability to cope better both with the trends of shorter handset product lifecycles and with the intensified competition in the underlying OEM environment compare to our international counterparts (CEM, EMS and ODM alike).

We maintained our high double digit turnover growth during the period by continuously expanding the business volumes with and the scope of services provided to our key customers. We also continued to build upon our core competencies and expand our services on offer to encompass end to end services ranging from joint design, joint development, procurement, manufacturing and logistics to after-sales services. Our recent acquisition of CMCS demonstrates our continued commitment to extending more services and capabilities to our customers. Our efforts to expand our overseas operations also remained active during the period, with strategic investments into the Americas, Europe and Asia. The demand for services from these overseas locations continues to be high, and our presence in these locations will facilitate closer partnerships with key customers located nearby in the future.

These actions were taken to improve our service quality and respond to requests from our key customers. They are the result of our key strategic initiatives taken during the period. First of all, we have strengthened our vertical integration capabilities to meet the ever increasing supply chain management demands from our customers; secondly, we have increased our design capabilities to work with their increasing demand for external R&D resources and fostering stronger joint-design, joint-development relationship; thirdly, we have invested into the emerging markets following our customers to facilitate their and our growth.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Liquidity and financial resources

Our Group generally finances operations with internally generated cash flow and banking facilities provided by our principal bankers in Hong Kong and China. We maintain a strong financial position: as at 30 June 2005, the total shareholders' equity of our Company was approximately US$1,218 million, an increase of about 93% over that as at 31 December 2004, and our cash and cash equivalents and bank deposits stood at US$482 million. Our interest-bearing bank borrowings as at 30 June 2005 amounted to US$292 million. During the period, we did not use any financial instruments for hedging purposes. Our gearing ratio, which was computed by dividing the current liabilities and long term debt by shareholder's equity, was 90%. Due to our purchasing power and economies of scale, we were able to better mix and match our account receivables with account payables. This balancing and the natural hedge created have in essence smoothed out our cash flow and minimized our currency risk.

Commitments and contingent liabilities

As at 30 June 2005, our total commitments were US$49 million (2004: US$45 million). As at the same date, we had no contingent liabilities.

Pledge of assets

Our property, plant and equipment with a net book value of approximately US$31 million were used to secure our general banking facilities. Furthermore, Foxconn Oy has pledged its trade receivables and inventories by way of a floating charge to secure general banking facilities granted to it. As at 30 June 2005, our Group's general banking facilities amounted to approximately US$1,074 million, of which approximately US$316 million were utilized.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Outlook

With the positive business momentum build up in the period, we are confident that 2005 will be another excellent year for the Company. We will continue to work closely with our customers to deliver the best performance results for the remaining months to come.

Employees and Remuneration Policies

As at 30 June 2005, our Group had a total of 35,967 employees. Total staff costs incurred during the period ended 30 June 2005 amounted to US$151 million (2004: US$89 million). We offer a comprehensive remuneration policy which is reviewed by the management on a regular basis.

Our Company has adopted a share scheme and a share option scheme respectively. The purpose of the schemes is to incentivize eligible participants who contribute to our Group's operations.

Share options

On 25 July, 2005, the Group granted 435,599,000 options to 575 employees under the share option scheme as an incentive scheme for their contribution to the Group. The exercise price is HK$6.06, and they were to be vested in six tranches each year on 25 July from 2006 to 2011. The maturity date for these options is 31 December 2011.

Following the adoption of the new IFRS 2, the fair value of share options granted will be recognised as an employee expense with a corresponding increase in equity by the amount of the proceeds received when the options are exercised. The fair value is measured at the date of grant and spread over the period during which the employees become unconditionally entitled to the options. The amount recognised as an expense will be adjusted to reflect the actual number of share options that vest. The adoption of this new accounting standard will have an estimated effect of reducing the Group's profit attributable to shareholders for the year 2005 by approximately US$17 million.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Use of proceeds from our IPO

The net proceeds from our initial public offering on the Main Board of Stock Exchange on 3 February 2005 were approximately US$460 million. As at the end of the period, approximately HK$1,600 million (or US$ 206 million) of the proceeds were used to fund our capital expenditure. Further, approximately HK$1,200 million (or US$ 154 million) of the proceeds were already used to repay our bank loans. The remaining balance of US$100 million was used to finance our working capital. All of the above were properly applied in the ways as described in the prospectus of the Company dated 24 January 2005.

OTHER INFORMATION

DISCLOSURE OF INTERESTS

Directors' Interests in Securities

As at 30 June 2005, the interests and short positions, if any, of each Director and chief executive of the Company in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were required to be notified to the Company and The Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and chief executives were deemed or taken to have under such provisions of the SFO), or which were required to be and are recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise required to be notified to the Company and the Stock