MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF RESULTS AND OPERATIONS

The year 2005 was another year of record-setting results for the Company, in revenue as well as in net profit. Revenue for the year reached US$6,364 million, which represents an increase of US$3,056 million, approximately 92% over the prior year revenue of US$3,308 million. Net profit also reached a record high of US$386 million, representing an increase of approximately 113% over the prior year amount of US$181million. Basic earnings per share for the period were US$5.64 cents.

In 2005, we saw good handset market growth as well as market share gains for our customers. Wireless hand-held device markets have shown increasing shipments and growth caused by the surging demand resulted from emerging markets consumer penetration and new handset features. The rising consumption power and the improved affordability of wireless services and products in the so-called BRIC (Brazil, Russia, India and China) countries have created significant demand for handsets. New handset features such as camera, MP3, email and PDA have accelerated consumers' replacement cycle for mobile phones. Together, these two main forces created good demand for our customers' products. Working with our customers to meet the increasing market demand, the Company also benefited from such a growth.

Despite a buoying handset market in 2005, competition was strong and customers' demand on quality and speed of our services remained high. The Company continued strengthening its leadership position in the intensely competitive environment through expanding the value-added and end-to-end solutions offered to customers. To execute this strategy effectively, the Company acquired Chi Mei Communication Systems, Inc. ("CMCS") with the intention to combine leading-edge R&D services with our powerful global manufacturing platform and unique mechanical component capabilities to create the best solution for our customers. Aiming to become a seamless part of our customers' global supply chain, the Company continued to provide co-location services to our strategic customers in key geographical areas. This is witnessed by our increased investments in some of the BRIC countries. To enhance our yields and enable our customers' state-of-the-art creative product designs, we also invested in certain key processing technologies. All these strategic investments were done with a view to further enhance partnership with customers in order to grow with them.

In 2005, the Company also focused on continuous improvement initiatives and IT system upgrades to enhance operation efficiency and impose tighter expenses and costs control. Tremendous efforts were devoted to enable the Company compete in a market with increasing pricing pressure. Vertical integration and component capability build-up were also the major tasks for the management, as these are key to our long-term sustainable competitiveness.

Looking forward, the Company is aware of increasing competition and complexity due to creative product designs and convergence of products and technologies. With the solid foundations, investments and experiences from the past, the management believes that the Company is well positioned to capture further growth opportunities and continue to perform well in the future.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2005, we had a cash balance of US$360 million. The cash balance is expected to finance our working capital and capital expenditure plans in light of our continuing fast growth. We had a net decrease in bank loans by US$462 million in 2005 by repayments with funds partially from initial public offering ("IPO") proceeds. Our gearing ratio, expressed as a percentage of interest bearing external borrowings of US$176 million over total assets of US$3,159 million, is 5.6%.

Net cash generated from operating activities in 2005 was US$236 million.

Net cash used in investing activities in 2005 was US$403 million. Our expenditures for investing activities were primarily for the merger and acquisition activities in purchasing the CMCS and purchase of property, plant and equipment related to our facilities in our major sites in Americas, Europe and Asia.

Net cash generated from financing activities in 2005 was US$17 million only, as proceeds of US$485 million from the issuance of shares was used to reduce bank loans by US$468 million in 2005.

PLEDGE OF ASSETS

As at the balance sheet date, the Group pledged property, plant and equipment having a net book value of approximately US$19.73 million (2004: US$41.11 million) to secure general banking facilities granted to the Group.

In addition, Foxconn Oy, a subsidiary of the Company, 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$47.33 million (2004: US$53.13 million). The bank facilities were unutilized as at 31 December 2005 and 2004.

CAPITAL COMMITMENTS

As at the balance sheet date, the capital commitment of the Group was US$17.37 million (2004: US$45.30 million).

SIGNIFICANT INVESTMENTS

In 2005, we had invested in our key sites in Americas, Europe and Asia to enhance our capabilities and capacities in various regions to serve our customers. These investments were proven successful in gaining more businesses and keep up the seamless working partnership with our key customers. We expect more of these investments will continue to be made by the Group in 2006.

MANAGEMENT DISCUSSION AND ANALYSIS

OUTLOOK

Looking beyond 2005, we are excited with the growth opportunities ahead of us. We believe that the handset outsourcing trend will continue to grow and we will be able to win more market shares and businesses from our customers.

We need to focus on effective execution of our business strategy, continuous improvement of our operations and selective investments in strategic areas that will contribute to our long-term prosperity. With the solid foundations, investments and experiences from the past, the management believes that we are well positioned to capture the growth of the industry and continue to perform well in the future.

EMPLOYEES

As at 31 December 2005, the Group had a total of 59,070 (2004: 32,060) employees. Total staff costs incurred during the year 2005 amounted to US$298.25 (2004: US$225.38) million. The Group offers a comprehensive remuneration policy which is reviewed by the management on a regular basis.

The Company has adopted a share scheme and a share option scheme, respectively. The share option scheme complies with the requirements of the rules of Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").