NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2005

1. REORGANISATION AND BASIS OF PREPARATION OF THE CONSOLIDATED 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 parent is Foxconn (Far East) Limited (incorporated in the Cayman Islands) and its ultimate holding company is Hon Hai Precision Industry Company Limited ("Hon Hai") (incorporated in Taiwan and its shares are listed on the Taiwan Stock Exchange). The addresses of the registered office and principal place of business of the Company are disclosed in the section headed "Corporate Information" to the annual report.

The Company and its subsidiaries (hereinafter collectively referred to as the "Group") are principally engaged in the manufacture of complete mobile phone handset systems and modules for mobile phone handsets.

In preparing for the listing of the Company's shares on the Stock Exchange, the Company entered into an agreement with Foxconn (Far East) Limited in respect of the sale and purchase of shares in Grand Champion Trading Limited ("Grand Champion") and Wide Ranging Investments Limited ("Wide-Ranging") on 22 March 2004. 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"). Pursuant to the Group Reorganisation, the Company became the holding company of all the handset manufacturing and sales operations of Hon Hai and the Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the consolidated financial statements for the year ended 31 December 2004 have been prepared using the principle of merger accounting in a manner consistent with pooling of interest.

The consolidated financial statements are presented in United States Dollars ("US$") as entities within the Group have different functional currencies. US$ is also the functional currency of the Company.

2. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new International Financial Reporting Standards (IFRSs), International Accounting Standards (IASs) and Interpretations (hereinafter collectively referred to as "new IFRSs") issued by the International Accounting Standards Board ("IASB") that are effective for accounting periods beginning on or after 1 January 2005. The application of the new IFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests has been changed. The changes in presentation have been applied retrospectively. The adoption of the new IFRSs has had no material effect on how the results for the current or prior accounting years are prepared and presented. Accordingly, no prior year adjustment has been required. The impact of these changes in accounting policies is discussed in details as below.

2. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS *(Continued)*

Share-based payments

In the current year, 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 and ordinary shares of the Company determined at the date of grant of the share options and ordinary shares over the vesting period. The Group has applied IFRS 2 to share options and ordinary shares 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 amounts charged to consolidated income statement for the year ended 31 December 2005 included cost of sales of US$13,684,000, general and administrative expense of US$2,359,000, research and development expense of US$3,903,000, selling expense of US$130,000, and the aggregate amount of US$20,076,000 was included as share compensation reserve as at 31 December 2005.

At the date of authorisation of these consolidated financial statements, the following new IFRS, amendments and interpretations were in issue but not yet effective:

IAS 1 (Amendment)	Capital Disclosures[1]
IAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures[2]
IAS 21 (Amendment)	Net Investment in a Foreign Operation[2]
IAS 39 (Amendment)	Cash Flow Hedges of Forecast Intragroup Transactions[2]
IAS 39 (Amendment)	The Fair Value Option[2]
IAS 39 and IFRS 4 (Amendments)	Financial Guarantee Contracts[2]
IFRS 6	Exploration for and Evaluation of Mineral Resources[2]
IFRS 7	Financial Instruments: Disclosures[1]
IFRIC 4	Determining whether an Arrangement contains a Lease[2]
IFRIC 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds[2]
IFRIC 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment[3]
IFRIC 7	Applying the Restatement Approach under IAS 29 *Financial Reporting in Hyperinflationary Economies*[4]
IFRIC 8	Scope of IFRS 2[5]
IFRIC 9	Reassessment of Embedded Derivatives[6]

1 Effective for annual periods beginning on or after 1 January 2007
2 Effective for annual periods beginning on or after 1 January 2006
3 Effective for annual periods beginning on or after 1 December 2005
4 Effective for annual periods beginning on or after 1 March 2006
5 Effective for annual periods beginning on or after 1 May 2006
6 Effective for annual periods beginning on or after 1 June 2006

2. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS *(Continued)*

The directors anticipate that the adoption of these IFRSs, amendments and interpretations in future periods will have no material impact on the consolidated financial statements of the Group.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair values as explained in the accounting policies set out below. The consolidated financial statements have been prepared in accordance with IFRSs and the principal accounting policies adopted are set out below. The consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

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 their accounting policies into line with those used by other members of the Group.

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

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Acquisition of additional interests in subsidiaries are recorded at historical cost and the excess of the cost of acquisition over the carrying amounts of net assets acquired is recognised as goodwill.

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

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at 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 that meet the conditions for recognition under IFRS 3 *Business Combinations* are recognised at 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 and measured at fair value less costs to sell.

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.

Goodwill

Goodwill arising on an acquisition of a subsidiary for which the agreement date is on or after 31 March 2004 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 relevant subsidiary at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the income statement. An impairment loss for goodwill is not reversed in subsequent periods.

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

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.

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

Service income is recognised when services are provided.

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

Revenue recognition *(Continued)*

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial assets to that asset's net carrying amount.

Dividend income from investments is recognised when the Group's rights to receive payment have been established.

Leasing

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the lessees.

All other leases are classified as operating leases and the annual rentals are charged to the income statement on a straight-line basis over the relevant lease term. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. US$) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Borrowing costs

All borrowing costs are recognised in the income statement in the period in which they are incurred.

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

Retirement benefit costs

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses which exceed 10% of the greater of the present value of the Group's pension obligations and the fair value of plan assets are amortised over the expected average remaining working lives of the participating employees. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the amended benefits become vested. Any asset resulting from this calculation is limited to unrecognised actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

The amount recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service cost, and as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to unrecognised actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the 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 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.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base 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 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.

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

Taxation *(Continued)*

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 profits 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 to profit or loss, 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

Property, plant and equipment, other than construction in progress, are stated at cost less depreciation and any identified impairment loss at the balance sheet date.

Construction in progress is stated at cost which includes all construction costs less accumulated impairment losses. It is not depreciated until completion of construction. The cost of completed construction work is transferred to the appropriate category of property, plant and equipment. Depreciation of these assets, on the same basis as other property, plant and equipment, commences when the assets are ready for their intended use.

Depreciation is provided to write off the cost of other property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is dereognised.

Research and development expenditure

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

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight line basis over its useful life, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

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

Impairment losses (other than goodwill and available-for-sale investments)

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset 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 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 in prior years. A reversal of an impairment loss is recognised as income immediately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out basis.

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. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated at fair value through profit or loss on initial recognition. The Group's certain investments are classified as investments held for trading. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

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

Financial assets *(Continued)*

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade receivables, other receivables and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as any of the other categories set out above. For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and are subject to an insignificant risk of changes in value.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

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

Financial liabilities and equity *(Continued)*

Financial liabilities

Financial liabilities including bank loans, trade payables and other payables are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

Derivatives

Derivatives that do not qualify for hedge accounting are deemed as financial assets held for trading or financial liabilities held for trading. Changes in fair values of such derivatives are recognised directly in profit or loss.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

For financial liabilities, they are removed from the Group's balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expires). The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in profit or loss.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Equity-settled share-based payment transactions

For share options or ordinary shares of the Company granted to employees of the Group, the fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period or recognised as an expense in full at the grant date when the share options or ordinary shares granted vest immediately, with a corresponding increase in equity (share compensation reserve).

At the time when the share options are exercised, the amount previously recognised in share compensation reserve will be transferred to share premium. When the share options are forfeited after vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will continue to be held in share compensation reserve.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The management had made the following estimates and assumptions in the process of applying the Group's accounting policies, which are described in note 3, that have a significant risk of causing a material adjustment to the carrying amounts of the assets and liabilities as discussed below.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. In May 2005, the Company acquired Chi Mei Communication Systems, Inc. ("CMCS"), a company which specialises in ODM business, and the carrying amount of goodwill at the balance sheet date was US$63,075,000. At the end of 2005, the Group appointed a professional valuer to perform an appraisal of the value in use of CMCS. Details of the impairment testing are provided in note 18.

Provision

Provision has been made for value-added costs to repair or replace defective goods, such as labour (whether incurred internal or external) and material costs, and also costs that may not be recoverable from suppliers for the rework, either in accordance with contractual terms or the Group's policy. The provision requires the management to estimate the extent of repairs and replacements with reference to past experience and technology needs. The estimation may be adversely affected by many factors, including additional variations to the plans requested by the customers or because of technical needs, and unforeseen problems and circumstances. Any of these factors may affect the extent of repair or replacement required and therefore ultimate repair and replacement costs to be incurred in the future period.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include investments held for trading, bank loans, trade and other receivables and trade and other payable. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies applied by the Group to mitigate these risks are set out below. Management monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31 December 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. A major portion of the Group's trade debts are receivable from industry leaders or multinational customers with solid financial background. Meanwhile, in order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and monitoring procedures to ensure that follow-up action is taken to recover overdue debts. The Group also request for adequate collateral as considered necessary. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Credit risk in mobile phone handset industry is concentrated as the customers are the few global handset manufacturers. However, with the strong financial background and good creditability of the global handset manufacturers, the management considers there is no significant credit risk.

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

Currency risk

Certain subsidiaries of the Company transact in foreign currencies, which expose the Group to foreign currency risk. In order to mitigate the foreign currency risk, the Group manages its foreign currency exposure by non-financial techniques such as managing the transaction currency, and leading and lagging payments and receivable management. In addition, the Group sometimes raised bank loans in various foreign currencies and enters into short-term foreign currency forward contracts (less than three months) for hedging purpose. Currently the Group does not designate its foreign currency forward contracts denominated debt as a hedging instrument for the purpose of hedging the currency risk of its foreign operations. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

Interest rate risk

In the past, the Group had applied interest rate swaps to manage its exposure to interest rate fluctuations on its long-term bank borrowings. Currently, a majority of the Group's borrowings are raised on short term basis and therefore the related cash flow and fair value interest rate risk is considered low. No additional derivatives were used during the current year for hedging short-term interest rate exposure other than those existing derivatives.

6. BUSINESS AND GEOGRAPHICAL SEGMENTS

The Group's turnover and profit are entirely derived from the end-to-end handset manufacturing service to the 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.

INCOME STATEMENT

	Year ended 31 December 2005			
	Asia	**Europe**	**America**	**Consolidated**
	US$'000	**US$'000**	**US$'000**	**US$'000**
TURNOVER				
External sales	**3,276,160**	**1,012,050**	**2,076,287**	**6,364,497**
RESULTS	**282,698**	**94,247**	**181,691**	**558,636**
Unallocated corporate income				**38,485**
Unallocated corporate expenses				**(163,962)**
Unallocated interest expense on bank borrowings				**(13,901)**
Profit before tax				**419,258**
Income tax expense				**(36,324)**
Profit for the year				**382,934**

6. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

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

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

BALANCE SHEET

	As at 31 December 2005			
	Asia	**Europe**	**America**	**Consolidated**
	US$'000	**US$'000**	**US$'000**	**US$'000**
ASSETS				
Segment assets	**847,318**	**435,307**	**596,338**	**1,878,963**
Unallocated corporate assets				**1,279,584**
Consolidated total assets				**3,158,547**
LIABILITIES				
Segment liabilities	**–**	**100,181**	**144,272**	**244,453**
Unallocated corporate liabilities				**1,387,077**
Consolidated total liabilities				**1,631,530**

6. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

	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

OTHER INFORMATION

	Year ended 31 December 2005				
	Asia	**Europe**	**America**	**Corporate**	**Consolidated**
	US$'000	**US$'000**	**US$'000**	**US$'000**	**US$'000**
Capital additions	**–**	**66,185**	**38,458**	**236,842**	**341,485**
Depreciation and amortisation	**–**	**15,898**	**12,941**	**43,595**	**72,434**
Impairment losses on property, plant and equipment	**–**	**7,966**	**–**	**–**	**7,966**
Gain (loss) on disposal of property, plant and equipment	**–**	**–**	**–**	**244**	**244**
Allowances for doubtful debts	**688**	**230**	**(66)**	**–**	**852**
Write down of inventories	**–**	**3,447**	**–**	**16,881**	**20,328**

6. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

	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	161,785	228,595
Depreciation and amortisation	–	8,746	12,195	26,916	47,857
Impairment losses on property, plant and equipment	–	–	1,629	1,214	2,843
Gain (loss) on disposal of property, plant and equipment	–	3,967	2,146	(39)	6,074
Allowances for doubtful debts	–	–	445	(208)	237
Write down of inventories	–	582	836	209	1,627

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:

	Carrying amount of segment assets as at 31 December		**Additions to property, plant and equipment for the year ended 31 December**	
	2005	2004	**2005**	2004
	US$'000	US$'000	**US$'000**	US$'000
Asia	**1,559,763**	999,697	**236,842**	161,785
Europe	**333,563**	305,453	**66,185**	37,947
America	**1,255,127**	811,771	**38,458**	28,863
	3,148,453	2,116,921	**341,485**	228,595

7. OTHER INCOME

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

	2005	2004
	US$'000	US$'000
Interest on bank deposits	**8,889**	5,832
Gain on disposal of property, plant and equipment	**–**	6,074
Service and subcontracting income	**8,691**	14,162
Sales of materials, scraps and moldings	**17,618**	28,558
Others	**3,287**	5,605
	38,485	60,231

8. RESTRUCTURING COSTS

	2005	2004
	US$'000	US$'000
Impairment losses on property, plant and equipment	**6,230**	–
Redundancy costs	**2,973**	–
	9,203	–

The amount represents those costs incurred and provision made in connection with the Group's restructuring and relocating its Finnish and Danish operations during the year ended 31 December 2005.

9. PROFIT BEFORE TAX

	2005 **US$'000**	2004 US$'000
Profit before tax has been arrived at after charging (crediting):		
Allowance for doubtful debts	**852**	237
Write down of inventories	**20,328**	1,627
Amortisation of prepaid lease payments (included in general and administrative expense)	**132**	66
Auditors' remuneration	**550**	430
Cost of inventories recognised as expense	**5,761,874**	3,006,832
Depreciation of property, plant and equipment	**72,434**	47,857
Impairment losses on property, plant and equipment	**7,966**	2,843
Impairment losses on goodwill on acquisition of additional interest in a subsidiary	**–**	1,403
Net foreign exchange loss	**5,826**	5,126
Increase in fair value of investments held for trading	**45**	–
Staff costs		
Directors' remuneration	**1,457**	1,197
Retirement benefit scheme contributions (excluding directors)	**17,710**	10,982
Other staff costs	**279,083**	213,204
	298,250	225,383
Loss (gain) on disposal of property, plant and equipment	**244**	(6,074)
Gain on disposal of investments held for trading	**84**	–

10. DIRECTORS' REMUNERATION

The emoluments paid or payable to each of the nine (2004: nine) directors were as follows:

		Other emoluments			
	Fees US$'000	**Basic salaries and allowances US$'000**	**Performance related incentive payments US$'000**	**Retirement benefit scheme contributions US$'000**	**Total 2005 US$'000**
Mr. Chin Wai Leung, Samuel	–	1,200	–	–	1,200
Mr. Dai Feng Shuh	–	180	–	–	180
Mr. Chang Ban Ja, Jimmy	–	–	–	–	–
Miss. Gou Hsiao Ling	–	–	–	–	–
Mr. Lee Jin Ming	–	–	–	–	–
Mr. Lu Fang Ming	–	–	–	–	–
Mr. Lau Siu Ki	23	8	–	–	31
Mr. Edward Fredrick Pensel	23	–	–	–	23
Mr. Mao Yu Lang	23	–	–	–	23
	69	1,388	–	–	1,457

		Other emoluments			
	Fees US$'000	Basic salaries and allowances US$'000	Performance related incentive payments US$'000	Retirement benefit scheme contributions US$'000	Total 2004 US$'000
Mr. Chin Wai Leung, Samuel	–	180	1,000	–	1,180
Mr. Dai Feng Shuh	–	10	–	–	10
Mr. Chang Ban Ja, Jimmy	–	–	–	–	–
Miss. Gou Hsiao Ling	–	–	–	–	–
Mr. Lee Jin Ming	–	–	–	–	–
Mr. Lu Fang Ming	–	–	–	–	–
Mr. Lau Siu Ki	2	1	–	–	3
Mr. Edward Fredrick Pensel	2	–	–	–	2
Mr. Mao Yu Lang	2	–	–	–	2
	6	191	1,000	–	1,197

11. EMPLOYEES' EMOLUMENTS

The aggregate emoluments of the five highest paid individuals included one (2004: two) executive director(s) of the Company, whose emoluments are included in note 10 above. The emoluments of the remaining four (2004: three) individuals were as follows:

	2005	2004
	US$'000	US$'000
Salaries and other benefits	**547**	209
Retirement benefits scheme contributions	**–**	–
Performance-related incentive payments	**2,152**	1,705
	2,699	1,914

Their emoluments were within the following bands:

	Number of employees	
	2005	2004
HK$4,000,001 to HK$4,500,000	**–**	1
HK$4,500,001 to HK$5,000,000	**1**	1
HK$5,000,001 to HK$5,500,000	**2**	–
HK$6,000,001 to HK$6,500,000	**1**	1
	4	3

12. INCOME TAX EXPENSE

	2005	2004
	US$'000	US$'000
Current tax:		
PRC	**38,429**	6,619
Other jurisdictions	**1,963**	2,781
	40,392	9,400
(Over) underprovision in prior years:		
PRC	**–**	172
Other jurisdictions	**(186)**	52
	(186)	224
Deferred tax *(note 19)*:		
Current year	**(3,992)**	(3,466)
Attributable to a decrease in tax rate	**110**	(346)
	(3,882)	(3,812)
	36,324	5,812

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.

12. INCOME TAX EXPENSE *(Continued)*

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

	2005	2004
	US$'000	US$'000
Profit before tax	**419,258**	187,131
Tax at the PRC income tax rate of 15% for the year	**62,889**	28,070
Effect of different tax rates of subsidiaries	**(1,814)**	390
Effect of tax exemptions granted to subsidiaries	**(32,366)**	(20,748)
Tax effect of expenses not deductible for tax purpose	**7,141**	2,891
Tax effect of income not taxable for tax purpose	**(934)**	(1,381)
Tax effect of tax losses arising (utilised) not recognised	**1,484**	(3,288)
Decrease in opening deferred tax assets (liabilities) resulting from a decrease in applicable tax rate	**110**	(346)
(Over) underprovision in prior years	**(186)**	224
Tax expense for the year	**36,324**	5,812

The decrease in opening deferred tax assets/liabilities is mainly attributable to changes in tax rates in Mexico and certain European countries.

13. DIVIDEND

No dividend was paid or proposed during 2005, nor has any dividend been proposed since the balance sheet date (2004: Nil).

14. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit for the year attributable to equity holders of parent of US$385,699,000 (2004: US$181,319,000) and the weighted average number of 6,843,816,118 (2004: 5,272,282,897) shares in issue. The weighted average number of shares for the purpose of calculating the basic earnings per share is adjusted for 4,640,000 shares for which their subscriptions have become unconditional on 29 December 2005 and were issued on 4 January 2006, and 1,723,000 free shares that were immediately vested on the grant date on 31 December 2005.

The basic earnings per share for the year ended 31 December 2004 is 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 in that year.

14. EARNINGS PER SHARE *(Continued)*

The calculation of the diluted earnings per share attributable to the equity holders of the parent for the year ended 31 December 2005 is based on the following data:

	2005
	US$'000
Earnings	
Earnings for the purposes of basic and diluted earnings per share (Profit for the year attributable to equity holders of the parent)	**385,699**

Number of shares	
Weighted average number of ordinary shares for the purposes of basic earnings per share	**6,843,816,118**
Effect of dilutive potential ordinary shares:	
Share options	**24,596,130**
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**6,868,412,248**

Diluted earning per share for the year ended 31 December 2004 is not presented because there were no dilutive ordinary shares outstanding during that year.

15. 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 adjustments	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)
Other 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
Exchange adjustments	(3,695)	(6,757)	(363)	(11)	(10,826)
Acquisition of a subsidiary	16,202	8,188	4,985	–	29,375
Additions	28,512	187,653	19,296	76,649	312,110
Disposals	(6,997)	(29,705)	(3,704)	–	(40,406)
Transfers	9,730	37,921	5,768	(53,419)	–
At 31 December 2005	**166,337**	**490,175**	**43,994**	**42,154**	**742,660**
DEPRECIATION AND IMPAIRMENT					
At 1 January 2004	2,710	19,230	705	–	22,645
Exchange adjustments	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
Exchange adjustments	(633)	(5,052)	(65)	–	(5,750)
Charge for the year	6,719	58,238	7,477	–	72,434
Impairment loss	–	7,966	–	–	7,966
Eliminated on disposals	(2,763)	(19,965)	(1,788)	–	(24,516)
At 31 December 2005	**8,976**	**61,222**	**10,670**	**–**	**80,868**
CARRYING VALUES					
At 31 December 2005	**157,361**	**428,953**	**33,324**	**42,154**	**661,792**
At 31 December 2004	116,932	272,840	12,966	18,935	421,673

15. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The impairment loss on property, plant and equipment mainly arose in connection with the Group's restructuring plan for its plant facilities. The recoverable amount is determined based on fair value less costs to sell. The fair values of these plant and machinery have been determined by the management by reference to recent market prices for similar plant and machinery.

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$17,119,000 (2004: US$7,548,000). 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 37).

The above items of property, plant and equipment are depreciated using the straight-line method, after taking into account their estimated residual value, over the following periods:

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

16. PREPAID LEASE PAYMENTS

The amount represents leasehold interest in land under operating leases in the PRC amortised over their relevant lease term ranging from 40 to 50 years.

17. AVAILABLE-FOR-SALE INVESTMENTS

	2005	2004
	US$'000	US$'000
Unlisted overseas equity investments, at cost	**1,028**	138

The above unlisted investments represent investments in unlisted equity securities issued by private entities incorporated in Taiwan and Finland. They are measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be reliably measured.

18. GOODWILL

	2005	2004
	US$'000	US$'000
At 1 January	**–**	–
Arising on acquisition of a subsidiary	**46,469**	–
Arising on acquisition of additional interest in a subsidiary	**16,606**	1,403
Impairment losses recognised	**–**	(1,403)
At 31 December	**63,075**	–

The amount represents goodwill arising on the acquisition of a 56.48% interest in CMCS (see note 28) in May 2005 and an additional 19.86% interest in CMCS subsequently acquired by the Group up to 31 December 2005.

As at 31 December 2005, before impairment testing, goodwill has been allocated to one single cash generating unit, CMCS. The recoverable amount has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and discount rate of 10.51%. Cash flows beyond the 5-year period are extrapolated in perpetuity using a steady 5.5% growth rate. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Another key assumption for the value in use calculations is the budgeted gross margin, which is determined based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount to exceed the aggregate recoverable amount.

An impairment loss on goodwill of US$1,403,000 arising on the acquisition of remaining 2.3% equity interest of Foxconn Oy in January 2004 was recognised for the year ended 31 December 2004. The goodwill, that had been allocated to one single cash generating unit, the Group's Finnish operation, was impaired after impairment test performed by the management.

For the year ended 31 December 2005

19. DEFERRED TAXATION

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

	Accelerated tax depreciation US$'000	Tax losses US$'000	Prepaid expenses US$'000	Others US$'000	Total US$'000
At 1 January 2004	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)
Acquisition of a subsidiary	–	(3,121)	–	–	(3,121)
Charge (credit) to income for the year	950	2,968	(8,612)	702	(3,992)
Exchange differences	5	65	–	–	70
Effect of change in tax rate – charge to the income statement	57	53	–	–	110
At 31 December 2005	**2,923**	**(8,996)**	**–**	**(1,270)**	**(7,343)**

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:

	2005 US$'000	2004 US$'000
Deferred tax assets	**(10,094)**	(2,643)
Deferred tax liabilities	**2,751**	2,233
	(7,343)	(410)

19. DEFERRED TAXATION *(Continued)*

At the balance sheet date, the Group has unused tax losses of US$24,175,000 (2004: US$36,282,000) available for offset against future profits. A deferred tax asset has been recognised in respect of US$24,175,000 (2004: US$34,468,000) of such losses. No deferred tax asset has been recognised in respect of the remaining US$1,814,000 as at 31 December 2004 due to the unpredictability of future profit streams. The unrecognised tax losses will expire before 2010.

By reference to financial budgets, management believes that there will be sufficient future profits or taxable temporary differences available in the future for the realisation of deferred tax assets in respect of tax losses.

The Group did not have material temporary differences associated with undistributed earnings of subsidiaries as at the balance sheet dates.

20. INVENTORIES

	2005	2004
	US$'000	US$'000
Raw materials	**255,383**	264,327
Work-in-progress	**113,970**	27,999
Finished goods	**144,646**	187,867
	513,999	480,193

21. INVESTMENTS HELD FOR TRADING

The amount represents investment in listed bond funds on the Taiwan Stock Exchange held for trading purpose. The fair values are determined based on the quoted market bid prices available on the Taiwan Stock Exchange as at 31 December 2005.

22. TRADE AND OTHER RECEIVABLES

	2005	2004
	US$'000	US$'000
Trade receivables	**1,488,078**	658,603
Other receivables, deposits and prepayments	**24,771**	33,730
	1,512,849	692,333

The Group normally allows an average credit period of 30 to 90 days to its trade customers.

22. TRADE AND OTHER RECEIVABLES *(Continued)*

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

	2005	2004
	US$'000	US$'000
0-90 days	**1,485,673**	655,115
91-180 days	**2,042**	2,999
181-360 days	**288**	456
Over 360 days	**75**	33
	1,488,078	658,603

The fair value of the Group's trade and other receivables at the balance sheet dates was approximate to the corresponding carrying amounts.

23. TRADE AND OTHER PAYABLES

	2005	2004
	US$'000	US$'000
Trade payable	**1,202,338**	697,342
Accruals and other payable	**206,402**	149,013
	1,408,740	846,355

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

	2005	2004
	US$'000	US$'000
0-90 days	**1,192,824**	693,753
91-180 days	**2,055**	1,573
181-360 days	**5,563**	1,936
Over 360 days	**1,896**	80
	1,202,338	697,342

The fair value of the Group's trade and other payables at the balance sheet dates was approximate to the corresponding carrying amount.

24. BANK LOANS

	2005 **US$'000**	2004 US$'000
The borrowings are repayable as follows:		
On demand or within one year	**175,548**	633,956
In the second year	**–**	260
In the third to fifth years inclusive	**–**	850
After five years	**–**	2,450
	175,548	637,516
Less: Amount due for settlement within twelve months (shown under current liabilities)	**175,548**	633,956
Amount due for settlement after twelve months	**–**	3,560
Analysed as:		
Secured	**–**	3,810
Unsecured	**175,548**	633,706
	175,548	637,516
Analysis of borrowings by currency:		
US$	**175,548**	637,516

As at 31 December 2005, bank borrowings of US$175,548,000 carried interest at 0.40% plus LIBOR per annum. As at 31 December 2004, bank borrowings of US$25,500,000 carried interest at 0.45% plus LIBOR per annum and all remaining bank loans were 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 31 December 2004 (see note 37).

The fair value of the Group's bank borrowings at the balance sheet dates was approximate to the corresponding amount.

25. 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 31 December 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
Issued on 19 August 2005	26,915,000	1,077
Balance at 31 December 2005	6,953,416,025	278,137

As disclosed in note 1, the Company allotted and issued one share of US$1.00 to its immediate holding company on 22 March 2004 pursuant to the Group Reorganisation. The share capital of the Group disclosed in the consolidated balance sheet as at 1 January 2004 represent the aggregate capital amount of the Company, Grand Champion and Wide-Ranging before the Group Reorganisation using the principal of merger accounting.

On 31 March 2004, the Company allotted and issued 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.

25. SHARE CAPITAL *(Continued)*

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 retained 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.

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 (equivalent to US$0.5) 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.

On 19 August 2005, the Company allotted and issued a total of 26,915,000 shares of US$0.04 each to certain employees of CMCS for cash consideration of HK$5.065 (equivalent to US$0.6) per share. These shares rank pari passu in all respects with the then existing shares in issue.

On 15 December 2005, the Company further entered into subscription agreements (the "Subscription Agreements") with certain employees of CMCS, pursuant to which the Company agreed to allot and issue an aggregate of 4,640,000 new shares of US$0.04 each for cash consideration of HK$12.5 (equivalent to US$1.6) per share. These shares rank pari passu in all respects with the then existing shares in issue. Pursuant to the Subscription Agreements, the subscriptions have become unconditional as at 29 December 2005 and the 4,640,000 new shares were subsequently issued in January 2006. The subscription price received of HK$58,000,000 (equivalent to US$7,480,000) is included as equity of the Company as at 31 December 2005.

Details of share option scheme of the Company are disclosed in note 36 to the consolidated financial statements.

26. 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.

27. DERIVATIVES

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.

	2005	2004
	US$'000	US$'000
Forward foreign exchange contracts	**15,152**	4,642

As at 31 December 2005, the fair value of the Group's currency derivatives is estimated to be approximately US$203,000 (2004: US$166,000) based on market values provided by the banks of equivalent instruments at the balance sheet date.

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$9.5 million (2004: US$4.5 million) have fixed interest payments at an average rate of 4 per cent for periods 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 2005 is estimated at approximately US$188,000 (2004: US$181,000). These amounts are based on market values provided by the bank of equivalent instruments at the balance sheet date.

28. ACQUISITION OF SUBSIDIARIES

Pursuant to a stock purchase agreement dated 31 January 2004, the Group acquired 100% equity invest in Transworld Holdings Limited (together with its wholly-owned subsidiary, namely Superior Communication (Hangzhou) Co., Ltd.) 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 with two vendors respectively to acquire a 56.48% interest in 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.

28. 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:

	2005	2004
	US$'000	US$'000
Property, plant and equipment	**29,375**	5,133
Available-for-sale investments	**955**	–
Deferred tax assets	**3,121**	–
Inventories	**19,295**	–
Trade and other receivables	**25,756**	1,193
Investments held for trading	**13,182**	–
Bank balances and cash	**4,678**	3,052
Trade and other payables	**(25,187)**	(4,378)
Provision	**(5,766)**	–
Tax payable	**(1,105)**	–
Bank loans	**(5,965)**	–
Net assets acquired	**58,339**	5,000
Minority interests	**(25,389)**	–
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

The directors have completed an evaluation of the fair value of assets and liabilities acquired pursuant to the acquisition of CMCS, Transworld Holdings Limited and Superior Communication (Hangzhou) Co., Ltd. and concluded that the carrying amount of the net assets acquired before the combination 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.

28. ACQUISITION OF SUBSIDIARIES *(Continued)*

CMCS contributed approximately US$42,681,000 of turnover and loss for the year attributable to equity holders of the parent of US$4,659,000 for the period between the date of acquisition and 31 December 2005.

If the acquisition of CMCS had been completed on 1 January 2005, total group turnover for the current year would have been US$6,471,027,000, and the profit for the year would have been US$386,320,000. 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.

Transworld Holdings Limited and Superior Communication (Hangzhou) Co., Ltd. contributed approximately US$791,000 of turnover and loss for the year attributable to equity holders of the parent of US$754,000 for the period between the date of acquisition and 31 December 2004.

If the acquisition of Transworld Holdings Limited and Superior Communication (Hangzhou) Co., Ltd. had been completed on 1 January 2004, total group turnover for that year would have been US$3,308,270,000, and the profit for the year would have been US$181,274,000. 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 2004, nor is it intended to be a projection of future results.

29. 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:

	2004 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

29. DISPOSAL OF SUBSIDIARIES *(Continued)*

The subsidiaries being disposed of during the year ended 31 December 2004 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 year.

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

30. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and short term bank deposits with an original maturity of three months or less. The deposits carry at prevailing market interest rate of 1.70% (2004: 1.75%) per annum. The fair value of bank deposits at 31 December 2005 approximates to the corresponding carrying amount.

31. PROVISION

	Warranty provision
	US$'000
At 1 January 2005	–
Acquired on an acquisition of a subsidiary	5,766
Provision in the year	22,068
Utilisation of provision	(4,199)
At 31 December 2005	**23,635**

The warranty provision represents management's best estimate of the Group's liability under twelve to eighteen months' warranty granted on handset products, based on prior experience and industry averages for defective products.

32. CAPITAL COMMITMENTS

	2005	2004
	US$'000	US$'000
Commitments for the acquisition of property, plant and equipment contracted but not provided for	**17,369**	45,304

For the year ended 31 December 2005

33. OPERATING LEASE ARRANGEMENTS

The Group as lessee

	2005	2004
	US$'000	US$'000
Minimum lease payments under operating leases in respect of premises recognised for the year	**2,765**	4,743

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

	2005	2004
	US$'000	US$'000
Within one year	**2,059**	1,879
In the second to fifth years inclusive	**491**	945
	2,550	2,824

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

34. RELATED PARTY TRANSACTIONS

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

	2005 US$'000	2004 US$'000
Ultimate holding company		
Product sales	**359**	1,182
Leases expenses	**68**	–
R&D expenses	**18**	–
Sub-contracting income	**2,638**	–
Sub-contracting expenses	**41**	–
Equipment purchases	**2,952**	25,382
Equipment sales	**2,141**	2,042
Materials and components purchase	**11,322**	12,753
Subsidiaries of Hon Hai		
Product sales	**21,347**	3,855
Leases expenses	**1,683**	547
General services expenses	**17,103**	21,966
R&D expenses	**4,548**	–
Sub-contracting income	**720**	2,677
Sub-contracting expenses	**16,233**	6,533
Equipment purchases	**9,195**	10,843
Equipment sales	**5,261**	798
Materials and components purchase	**24,377**	34,050

During 2004, 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.

34. RELATED PARTY TRANSACTIONS *(Continued)*

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

	2005 US$'000	2004 US$'000
Trade receivables:		
Ultimate holding company	**344**	2,094
Subsidiaries of Hon Hai	**5,068**	1,098
	5,412	3,192
Other receivables:		
Ultimate holding company	**27**	60
Subsidiaries of Hon Hai	**766**	684
	793	744
	6,205	3,936
Trade payables:		
Ultimate holding company	**2,476**	1,730
Subsidiaries of Hon Hai	**14,942**	13,892
	17,418	15,622
Other payables:		
Ultimate holding company	**184**	7,673
Subsidiaries of Hon Hai	**9,375**	11,932
	9,559	19,605
	26,977	35,227

Balances due from/to related parties are unsecured, interest free and are repayable within one year.

(c) Compensation of key management personnel

The short term benefits paid or payable by the Group to directors of the Company and other members of key management during the year is approximately US$4,747,000 (2004: US$4,638,000).

35. 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.

CMCS, a subsidiary acquired by the Group in May 2005, operates a defined benefit plan in Taiwan. Under the scheme, the employees are entitled to retirement benefits at up to 45 months' final salary on attainment of a retirement age of 55. The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 31 December 2005 by 徐茂欽精算師，中華民國精算師協會 (Hsu Mao-Chin Actuary, The Actuarial Institute of the Republic of China). The present value of the defined benefit obligation, the related current service cost and past service cost were measured using the projected unit credit method.

The main actuarial assumptions used were as follows:

	2005
Discount rate	3.5%
Expected return on plan assets	3.5%
Expected rate of salary increases	3.0%
Future pension increases	–

The actuarial valuation showed that the market value of plan assets was equivalent to US$582,000.

Amounts recognised in income in respect of the defined benefit plans are as follows:

	2005 US$'000
Current service cost	150
Interest cost	23
Expected return on plan assets	(15)
Net actuarial (gains)/losses	–
Past service cost	15
	173

35. RETIREMENT BENEFITS PLANS *(Continued)*

Of the charge for the year, US$75,000 has been included in cost of sales and US$98,000 has been included in administrative expenses.

The actual return on plan assets was US$4,000 as at 31 December 2005.

The amount included in the balance sheet arising from the Group's obligation in respect of its defined benefit retirement benefit plans is as follows:

	2005
	US$'000
Present value of funded obligations	**610**
Unrecognised actuarial gains/(losses)	**208**
Unrecognised past service cost	**(206)**
Fair value of plan assets	**(582)**
Included as current liabilities	**30**

Movements in the net liability in the current year were as follows:

	2005
	US$'000
At 1 January	**–**
Net liability acquired on acquisition of a subsidiary	**20**
Amounts charged to income	**173**
Contributions	**(163)**
At 31 December	**30**

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.

36. SHARE-BASED PAYMENT TRANSACTIONS

The Company's share option scheme (the "Option Scheme"), was approved by a conditional resolution of the shareholders of the Company dated 1 December 2004 and adopted by a resolution of directors on 12 January 2005 for the primary purpose of providing incentives to directors and eligible employees, and will expire on 3 February 2015. Under the Option Scheme, the board of directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company. Additionally, the Company may, from time to time, grant share options to outside third parties for settlement in respect of goods or services provided to the Company. No share options were granted under the Option Scheme on or before 1 January 2005.

At 31 December 2005, the number of shares in respect of which options had been granted and remained outstanding under the Option Scheme was 435,290,000, representing 6.3% of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the Option Scheme is not permitted to exceed 10% of the shares of the Company in issue as at 3 February 2005, the listing date, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

Options granted must be taken up within 30 days after the date of grant, upon payment of HK$1.0 per offer. The Option Scheme does not contain any minimum period for which an option must be held before it can be exercised, though such minimum period may be specified by the board of directors at the time of grant. The exercise price is determined by the directors of the Company, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

On 25 July 2005, 435,599,000 share options were granted at an exercise price of HK$6.06. The options are divided into six even lots with vesting period ranging from one to six years from the date of grant. The share options are exercisable from the vesting date to 31 December 2011, the maturity date for these options, subject to the terms and conditions of the Option Scheme. The estimated fair value of the options granted on 25 July 2005 was US$104,038,000.

The closing price of the shares immediately before 25 July 2005, the date of grant of options, was HK$5.75.

The following table discloses movements of the Company's share options held by employees during the year:

Option type	Outstanding at 1/1/2005	Granted during year	Exercised during year	Lapsed during year	Expired during year	Outstanding at 31/12/2005
2005	**–**	**435,599,000**	**–**	**(309,000)**	**–**	**435,290,000**

No share options were exercisable as at 31 December 2005.

36. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

The fair value was calculated using the Black-Scholes option pricing model. The inputs into the model were as follows:

Share price on date of grant	US$0.76 (equivalent to HK$5.95)
Exercise price	US$0.76 (equivalent to HK$6.06)
Expected volatility	30%
Expected life	Vesting period plus 1.5 years
Risk free rate	3.3925%

Because the Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share prices, changes in subjective input assumptions can materially affect the fair value estimate.

Expected volatility was determined by calculating the historical volatility of the Company's share price over the period from 3 February 2005 (date of listing) to grant date. The expected life in the model has been adjusted, based on management's best estimate, for the effect of non transferability, exercise restrictions and behavioral considerations.

Pursuant to a share 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 "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.

On 31 December 2005, 1,723,000 new shares were also granted by the Company and vested to employees of the Group under the Share Scheme. No consideration is payable on the grant of the shares. The estimated fair value of these free shares granted was US$2,802,000. The fair value is measured at closing share price of HK$12.65 (equivalent to US$1.63) per share without adjustment for expected dividends. The new shares have not been issued up to the balance sheet date.

The Group recognised the total expenses of US$20,076,000 (2004: Nil) for the year ended 31 December 2005 in relation to share options and free shares granted by the Company.

37. PLEDGE OF ASSETS

As at the balance sheet date, the Group pledged property, plant and equipment having a carrying value of approximately US$19,727,000 (2004: US$41,106,000) to secure general banking facilities granted to the Group. The bank facilities were unutilised as at 31 December 2005.

In addition, a subsidiary of the Company namely 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$47,328,000 (2004: US$53,128,000). The bank facilities were unutilised as at 31 December 2005 and 2004.

38. SUBSIDIARIES

The Company has the following subsidiaries as at 31 December 2005:

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	
CMCS	Limited company	Taiwan	NT$1,500,000,000	–	76.332%	Design and manufacture of handsets
Dynacept Corporation	Limited company	United States of America ("USA")	US$1,000	–	100%	Prototyping and development
Foxconn Pecs Kft	Limited company	Hungary	EUR735,000	–	100%	Manufacture of handsets
Executar International Limited	Limited company	Cayman Islands	US$323,456,436	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	DKK2,100,000	–	100%	Research development and project management
Foxconn EMEA Inc.	Limited company	BVI	US$100,000	100%	–	Trading of handsets
Foxconn Hungary Kft	Limited company	Hungary	HUF10,039,000,000	–	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	Limited company	Finland	EUR1,558,800	–	100%	Manufacture of handsets
富士康精密組件(北京)有限公司(Foxconn Precision Component (Beijing) Co., Ltd.)	Wholly foreign owned enterprise	PRC	US$38,800,000	–	100%	Manufacture of handsets
Grand Champion	Limited company	BVI	US$66,409,723	–	100%	Investment holding

38. 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 Directly	Attributable equity interest held by the Company Indirectly	Principal activities
宏訊電子工業(杭州)有限公司(Honxun Electrical Industry (Hangzhou) Co., Ltd.)	Wholly foreign owned enterprise	PRC	US$53,800,000	–	100%	Manufacture of handsets
S&B Industry Hold Co., L.L.C.	Limited company	USA	US$7,218,280	–	100%	Investment holding
S&B Industry, Inc.	Limited company	USA	US$31,594,767	–	100%	Plastics manufacturing
S&B Industry Technologies L.P.	Limited company	USA	US$7,218,280	–	100%	Repair Center
深圳富泰宏精密工業有限公司(Shenzhen Futaihong Precision Industrial Co., Ltd.)	Wholly foreign owned enterprise	PRC	US$78,520,000	–	100%	Manufacture of handsets
Success World Holdings Limited	Limited company	Hong Kong	HK$388,525,000	100%	–	Investment holding
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
富士康(天津)精密工業有限公司 Foxconn (Tian Jin) Precision Industry Co., Ltd.)	Wholly foreign owned enterprise	PRC	US$19,800,000	–	100%	Manufacture of handsets
Transworld Holdings Limited	Limited company	Samoa	US$81,875,000	–	100%	Investment holding

38. 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 do Brasil Indústria e Comércio de Electrônicos Ltda (formerly Triple S Cosmoplast da Amazonia, Ltda.)	Limited company	Brazil	R$1,464,790	–	100%	Manufacture of handsets
Wide-Ranging	Limited company	BVI	US$39,779,648	–	100%	Investment holding
Excel True Holdings Limited	Limited company	BVI	US$50,000	–	100%	Investment holding
Foxconn India Private Limited	Limited company	India	INR19,999,900	–	100%	Manufacturing, import, export, distribution and assembly

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