NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2006

1. GENERAL AND BASIS OF PREPARATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability. 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"), a company incorporated in Taiwan and its shares are listed on the Taiwan Stock Exchange.

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.

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and with International Accounting Standard 34 "Interim Financial Reporting".

The condensed financial statements are presented in United States Dollars ("US$") which is also the functional currency of the Company.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair values, as appropriate.

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2005 except as described below.

In the current period, the Group has adopted all of the new International Financial Reporting Standards, amendments and interpretation ("new IFRSs") issued by the International Accounting Standards Board ("IASB") which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of the new IFRSs has had no material effect on how the results for the current or prior accounting periods are prepared and presented. Accordingly, no prior period adjustment was required.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

The Group has not early applied the following new standards, amendment and interpretation that have been issued but are not yet effective:

IAS 1 (Amendment)	Capital Disclosures[1]
IFRS 7	Financial Instruments: Disclosures[1]
IFRIC 7	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies[2]
IFRIC 8	Scope of IFRS 2[3]
IFRIC 9	Reassessment of Embedded Derivatives[4]
IFRIC 10	Interim Financial Reporting and Impairment[5]

[1] Effective for annual periods beginning on or after 1 January 2007
[2] Effective for annual periods beginning on or after 1 March 2006
[3] Effective for annual periods beginning on or after 1 May 2006
[4] Effective for annual periods beginning on or after 1 June 2006
[5] Effective for annual periods beginning on or after 1 November 2006

The directors of the Company anticipate that the application of these new standards, amendments or interpretations will have no material impact on the financial position and results of the Group.

3. SEGMENT INFORMATION

The Group's turnover and segment results are entirely derived from the manufacture and trading of handsets. The directors consider that these activities constitute one business segment since these activities are related and are subject to common risks and returns.

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

	Six months ended	
	30.6.2006	30.6.2005
	US$'000	US$'000
	(unaudited)	(unaudited)
EXTERNAL SALES		
Asia	**2,746,021**	892,068
Europe	**547,324**	406,243
America	**1,084,585**	1,050,061
Total	**4,377,930**	2,348,372
RESULTS		
Asia	**270,656**	95,874
Europe	**49,657**	33,880
America	**102,877**	118,222
	423,190	247,976
Unallocated corporate income	**21,426**	22,953
Unallocated corporate expenses	**(99,083)**	(101,620)
Unallocated interest expense on bank loans	**(8,092)**	(6,640)
Profit before tax	**337,441**	162,669
Income tax expense	**(37,183)**	(15,813)
Profit for the period	**300,258**	146,856

4. RESTRUCTURING COSTS

	Six months ended 30.6.2006 US$'000 (unaudited)	Six months ended 30.6.2005 US$'000 (unaudited)
Impairment losses on property, plant and equipment	**3,384**	–
Redundancy and other costs	**4,497**	–
	7,881	–

The amount represents those costs incurred and provision made in connection with the Group's restructuring and relocating its European operations during the period.

5. PROFIT BEFORE TAX

	Six months ended 30.6.2006 US$'000 (unaudited)	Six months ended 30.6.2005 US$'000 (unaudited)
Profit before tax has been arrived at after charging (crediting):		
Allowance for doubtful debts	**1,740**	435
Write down of inventories	**16,037**	9,051
Amortisation of prepaid lease payments (included in general and administrative expense)	**84**	31
Cost of inventories recognised as expense	**3,896,969**	2,086,073
Provision for warranty	**23,087**	–
Depreciation of property, plant and equipment	**48,676**	31,363
Interest income from bank	**(5,922)**	(4,194)

6. INCOME TAX EXPENSE

	Six months ended	
	30.6.2006	30.6.2005
	US$'000	US$'000
	(unaudited)	(unaudited)
Current tax:		
PRC	**36,706**	11,005
Other jurisdictions	**1,735**	1,917
	38,441	12,922
Underprovision in prior years:		
PRC	**90**	–
Other jurisdictions	**43**	64
	133	64
Deferred tax:		
Current period (note 10)	**(1,391)**	2,827
	37,183	15,813

6. INCOME TAX EXPENSE *(Continued)*

Taxation charge mainly consists of income tax in the PRC attributable to the assessable profits subject to tax rates ranging from 15% to 16.5%. The taxation charge is calculated at the applicable rates prevailing in the PRC. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The Company's subsidiaries operating in the PRC are eligible for certain tax holiday and concession. The tax holiday and concession normally are in the form of two years tax exemption from the first profitable year, followed by a 50% reduction of the applicable tax rate in the following three years.

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

	Six months ended	
	30.6.2006	30.6.2005
	US$'000	US$'000
	(unaudited)	(unaudited)
Profit before tax	**337,441**	162,669
Tax at the PRC income tax rate of 15% for the period	**50,616**	24,400
Effect of different tax rates of subsidiaries	**336**	1,630
Effect of tax exemptions and concessions granted to subsidiaries	**(20,951)**	(10,731)
Tax effect of expenses not deductible for tax purpose	**10,875**	2,511
Tax effect of income not taxable for tax purpose	**(954)**	(4,075)
Tax effect of tax losses (utilised) not recognised	**3,338**	(328)
Decrease in opening deferred tax assets resulting from dispute with tax bureau	**–**	2,342
Tax effect of income tax credits granted to a PRC subsidiary on acquisition of certain qualified equipment (note)	**(6,210)**	–
Underprovision in prior periods	**133**	64
Tax expense for the period	**37,183**	15,813

Note: Pursuant to the relevant tax rules and regulations, PRC subsidiaries of the Company can claim PRC income tax credits on 40% of the acquisition cost of certain qualified equipment manufactured in the PRC. Such PRC income tax credits are allowed as deduction from current income tax expenses when relevant conditions are fulfilled and tax approval is obtained from the tax bureau.

7. DIVIDEND

No dividend was paid during the six months ended 30 June 2006. The directors do not recommend the payment of an interim dividend.

8. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30 June 2006 is based on the profit attributable to equity holders of the parent for the period of US$301,692,000 (2005: US$146,856,000) and the weighted average number of 6,958,056,025 (2005: 6,744,884,000) shares in issue during the period.

The calculation of the diluted earnings per share attributable to the equity holders of the parent for the six months ended 30 June 2006 is based on the following data:

	US$'000 (unaudited)
Earnings	
Earnings for the purposes of basic and diluted earnings per share (Profit for the period attributable to equity holders of the parent)	**301,692**
Number of shares	
Weighted average number of ordinary shares for the purposes of basic earnings per share	**6,958,056,025**
Effect of dilutive potential ordinary shares:	
Share options	**226,001,822**
Share awards	**2,576,905**
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**7,186,634,752**

Diluted earning per share for the six months ended 30 June 2005 is not presented because there were no dilutive ordinary shares outstanding during that period.

9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment of approximately US$177,109,000 (2005: US$123,643,000).

In addition, the Group disposed of certain property, plant and equipment with a carrying amount of US$5,788,000 (2005: US$9,736,000) for proceeds of US$6,625,000 (2005: US$10,960,000), resulting in a profit on disposal of US$837,000 (2005: US$1,224,000) for the period.

An impairment loss of US$3,384,000 was recognised during the period in respect of certain production facilities (see note 4).

Property, plant and equipment of US$5,377,000 has been reclassified as assets held for sale as at 30 June 2006 (see note 12).

10. DEFERRED TAXATION

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

	Allowances for inventories, trade and other receivables	Accelerated tax depreciation	Tax losses	Prepaid expenses	Others	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
At 1 January 2005	–	1,911	(8,961)	8,612	(1,972)	(410)
Acquisition of a subsidiary	–	–	(3,121)	–	–	(3,121)
Charge (credit) to income for the period	–	1,774	8,050	(9,010)	2,013	2,827
Exchange differences	–	(654)	(43)	398	(96)	(395)
At 30 June 2005	–	3,031	(4,075)	–	(55)	(1,099)
At 1 January 2006	(279)	2,923	(8,996)	–	(991)	(7,343)
Charge (credit) to income for the period	(3,248)	(867)	2,258	–	466	(1,391)
Exchange differences	32	(22)	230	–	114	354
At 30 June 2006	(3,495)	2,034	(6,508)	–	(411)	(8,380)

10. DEFERRED TAXATION *(Continued)*

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

For the purposes of balance sheet presentation, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	30.6.2006	31.12.2005
	US$'000	US$'000
	(unaudited)	(audited)
Deferred tax assets	**(10,414)**	(10,094)
Deferred tax liabilities	**2,034**	2,751
	(8,380)	(7,343)

At 30 June 2006, the Group has unused tax losses of US$45,000,000 (31.12.2005: US$31,000,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately US$23,000,000 (31.12.2005: US$31,000,000) of such losses. No deferred tax asset has been recognised in respect of the remaining US$22,000,000 (31.12.2005: Nil) either due to the unpredictablility of future profit streams or because it is not probable that the unused tax losses will be available for utilisation before their expiry. The unrecognised tax losses will expire before 2011.

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 which have been recognised in respect of tax losses.

The Group did not have material temporary differences associated with undistributed earnings of subsidiaries as at 30 June 2006. In addition, the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such difference will not reverse in the foreseeable future.

11. TRADE AND OTHER RECEIVABLES

	30.6.2006 US$'000 (unaudited)	31.12.2005 US$'000 (audited)
Trade receivables	1,388,858	1,488,078
Other receivables, deposits and prepayments	29,280	24,771
	1,418,138	1,512,849

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

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

	30.6.2006 US$'000 (unaudited)	31.12.2005 US$'000 (audited)
0-90 days	1,387,023	1,485,673
91-180 days	1,460	2,042
181-360 days	256	288
Over 360 days	119	75
	1,388,858	1,488,078

12. ASSETS AND LIABILITIES HELD FOR SALE

In May 2006, the directors resolved to dispose of one of the Group's production plants in the United States (see note 20). The assets and liabilities attributable to the production plant have been classified as a disposal group held for sale and are presented separately in the balance sheet.

The proceeds of disposal are expected to exceed the net carrying amount of the relevant assets and liabilities and, accordingly, no impairment loss has been recognised on the classification of these assets as held for sale.

The major classes of assets and liabilities of the disposal group classified as held for sale are as follows:

	30.6.2006 US$'000 (unaudited)
Property, plant and equipment	5,377
Inventories	323
Trade and other receivables	1,615
Total assets classified as held for sale	7,315
Trade and other payables, and liabilities associated with assets classified as held for sale	471

13. TRADE AND OTHER PAYABLES

	30.6.2006	31.12.2005
	US$'000	US$'000
	(unaudited)	(audited)
Trade payable	1,284,399	1,202,338
Accruals and other payable	189,020	206,402
	1,473,419	1,408,740

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

	30.6.2006	31.12.2005
	US$'000	US$'000
	(unaudited)	(audited)
0-90 days	1,270,709	1,192,824
91-180 days	10,715	2,055
181-360 days	1,098	5,563
Over 360 days	1,877	1,896
	1,284,399	1,202,338

14. BANK LOANS

The bank loans are repayable within one year, unsecured and carry interest at fixed interest rates ranging from 5.0% to 5.8% (31.12.2005: 1.5% to 7.5%) per annum.

15. PROVISION

	Warranty provision US$'000
At 1 January 2005	–
Acquired on an acquisition of a subsidiary	5,766
Provision in the period	22,068
Utilisation of provision	(4,199)
At 31 December 2005	23,635
Provision in the period	23,087
Utilisation of provision	(5,695)
At 30 June 2006	41,027

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

16. SHARE CAPITAL

	Number of shares	Amount US$'000
Ordinary shares of US$0.04 each, authorised:		
Balance at 31 December 2005 and 30 June 2006	20,000,000,000	800,000
Ordinary shares of US$0.04 each, issued and fully paid		
Balance at 1 January 2005	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
Issued on 4 January 2006	4,640,000	185
Balance at 30 June 2006	6,958,056,025	278,322

On 15 December 2005, the Company entered into subscription agreements ("Subscription Agreements") with certain employees of a subsidiary, 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 new shares were subsequently issued on 4 January 2006.

17. COMMITMENTS

	30.6.2006 US$'000 (unaudited)	31.12.2005 US$'000 (audited)
Commitments for the acquisition of property, plant and equipment contracted but not provided for	**25,996**	17,369

18. SHARE-BASED PAYMENT TRANSACTIONS

(a) Equity-settled share option scheme

The Company has a share option scheme for eligible employees of the Group. Details of the share options outstanding during the current period are as follows:

Option type	Outstanding at 1/1/2006	Lapsed during the period	Outstanding at 30/6/2006
2005	435,290,000	(2,781,000)	432,509,000

The outstanding share options are granted on 25 July 2005 with vesting period ranging from one to six years from the grant date. 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 share scheme.

The outstanding share options as at 30 June 2006 had not yet vested. The Group recognised total expense of US$17,379,000 (2005: Nil) for the six months ended 30 June 2006 in relation to the share options granted by the Company.

(b) Cash-settled share-based payments

During the current period, the Group issued to certain employees share appreciation rights ("SAR") at exercise price of HK$13.6 and HK$15 with vesting period ranging from one to two years from the grant date. The SARs require the Group to pay the intrinsic value of the SAR to the employee at the date of exercise. At 30 June 2006, the Group has recorded liabilities of US$115,000 (31.12.2005: Nil). The fair value of the SARs is determined using the Black-Scholes pricing model. The Group recorded total expenses of US$115,000 (2005: Nil) during the six months ended 30 June 2006 in respect of SARs. The SARs granted have not vested up to 30 June 2006.

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

(c) Other share-based payment plan

On 31 December 2005, the Company awarded 3,273,000 shares to certain employees pursuant to a share scheme adopted on 12 January 2005, of which 1,723,000 shares awarded were vested immediately, while the remaining shares are granted with vesting periods ranging from one to three years from the grant date. No consideration is payable on the grant of the shares. Details of the unvested shares outstanding during the current period are as follows:

	Number of shares
At 1 January 2006	1,550,000
Lapsed during the period	(54,000)
At 30 June 2006	1,496,000

During the six months ended 30 June 2006, the Group has recognised total expense of US$1,216,000 (2005: Nil) in relation to the free shares granted by the Company. No new shares have been issued pursuant to the share scheme up to 30 June 2006.

19. RELATED PARTY DISCLOSURES

(a) During the period, 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:

	Six months ended	
	30.6.2006	30.6.2005
	US$'000	US$'000
	(unaudited)	(unaudited)
Ultimate holding company, Hon Hai:		
Product sales	**477**	316
Materials and components purchase	**5,133**	6,410
Equipment purchase	**6,863**	979
Equipment sales	**749**	2,141
Sub-contracting income	**238**	–
Sub-contracting expense	**283**	–
Research and development expense	**11**	–
General service income	**142**	–
Subsidiaries of Hon Hai		
Product sales	**7,396**	6,690
Materials and components purchase	**17,278**	10,916
Equipment purchase	**2,907**	4,633
Equipment sales	**589**	3,147
Leases expense	**1,367**	380
Sub-contracting income	**2,043**	100
Sub-contracting expense	**11,554**	6,377
Research and development expense	**1,064**	1,125
General service expense	**12,683**	9,104

19. RELATED PARTY DISCLOSURES *(Continued)*

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

	30.6.2006	31.12.2005
	US$'000	US$'000
	(unaudited)	(audited)
Trade receivables:		
Ultimate holding company	**504**	344
Subsidiaries of Hon Hai	**4,715**	5,068
	5,219	5,412
Other receivables:		
Ultimate holding company	**14**	27
Subsidiaries of Hon Hai	**615**	766
	629	793
	5,848	6,205
Trade payables:		
Ultimate holding company	**3,091**	2,476
Subsidiaries of Hon Hai	**19,657**	14,942
	22,748	17,418
Other payables:		
Ultimate holding company	**31**	184
Subsidiaries of Hon Hai	**7,308**	9,375
	7,339	9,559
	30,087	26,977

The amounts are unsecured, interest free and are repayable on demand.

19. RELATED PARTY DISCLOSURES *(Continued)*

(c) Compensation of key management personnel

The benefits paid or payable by the Group to directors of the Company and other members of key management during the period is approximately US$3,270,000 (2005: US$2,373,000).

20. EVENT AFTER THE BALANCE SHEET DATE

As announced by the Company on 1 August 2006, Dynacept Corporation ("Dynacept"), a wholly-owned subsidiary of the Company, entered into two agreements on 31 July 2006 with MRP Real Estate Holdings, LLC and MRP Brewster, LLC (the "Purchasers") pursuant to which Dynacept disposed certain of its assets and liabilities at a cash consideration of US$8,580,000. The Purchasers are beneficially owned by a director of Dynacept and a relative of that director. The relevant assets and liabilities are reclassified as assets and liabilities held for sale (see note 12) as at 30 June 2006. It is estimated that the Group will record a gain, net of costs, of approximately US$1,500,000 as a result of the disposal.

21. APPROVAL

The consolidated condensed financial statements on pages 5 to 29 were approved and authorised for issue by the Board of Directors on 1 September 2006.