MANAGEMENT DISCUSSION AND ANALYSIS

Review of Results and Operations

For the six months ended 30 June 2006, our Group recorded a 86% year-on-year increase in consolidated turnover of US$4,378 million (2005: US$2,348 million). Profit before tax for the period was US$337 million, representing 107% growth over the US$163 million profit before tax for the same period last year. Basic earnings per share for the period was US4.34 cents.

The first six months of 2006 we saw not only continued growth in the global handset markets, but also our key customers' excellent performance in an intensifying competitive environment. Under such circumstances, our unique advantages in speed, quality, engineering services, flexibility and cost offered through our revolutionary eCMMS business model have been highly appreciated by our customers. Our one of a kind integration of mechanical and electrical engineering capabilities continue to contribute to our customers' ability to cope with shorter handset product lifecycles and ever demanding innovative product designs. Throughout the years, we have seen such win-win partnership strengthened between the Group and its key customers.

With the success of our key customers in the market together with our relentless efforts in providing the best services to them, we were able to sustain high double digit turnover growth during the period. We have been continuously expanding the business volumes with and the scope of services provided to our key customers. We also continued to streamline our business to improve our efficiency and competitiveness in midst of focusing on our core handset business and disposing unrelated overseas operation. Our subsidiary, Chi Mei Communication Systems, Inc., focusing on ODM, joint design (JDSM), and joint development (JDVM) services has attracted strong interest from our customers and prospects. To further expand our design capacity and enhance our design capabilities including CDMA, we have set up a branch office in Korea to recruit additional design team members. Our efforts to expand our overseas operations also remained active during the period, with an emphasis on speeding up our investment into India, one of the fastest growing handset markets in the world. Our continuous expansion in these fast growing BRIC countries should fuel our next phase growth in the future. In China, we have also continued to streamline our various production sites and explored the optimal way to allocate our resources.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Review of Results and Operations *(Continued)*

In view of the fierce competition, it is vital for us to provide more value-added services to our customers. To this end, we have invested in new material handling and surface treatment technologies that we believe will be of great interest to our customers in the future, in light of end users' increasing form factor demand. We have also studied various ways to expand our service scope to facilitate the most efficient supply chain for our customers.

All these efforts contributed to our ever closer relationship with our key customers and, hence, strong performance result in the first half of 2006.

Liquidity and Financial Resources

Our Group generally finances operations with internally generated cash flow and banking facilities provided by our principal bankers in Hong Kong, Taiwan and China. We maintain a strong financial position: as at 30 June 2006, the total shareholders' equity of our Group was approximately US$1,840 million, an increase of about 21% over that as at 31 December 2005, and our cash and cash equivalents and bank deposits stood at US$566 million. Our interest bearing bank borrowings as at 30 June 2006 amounted to US$140 million with majority mature by mid December. During the period, we did not use any financial instruments for hedging purposes. Our gearing ratio, which was computed by dividing the current liabilities and long term debt by shareholder's equity, was 92%. Due to our increasing purchasing power and expanding economies of scale, we were able to better mix and match our account receivables with account payables for the purpose of natural hedge. This balancing and the natural hedge created have in essence smoothed out our cash flow and minimized our currency exposure risk.

Capital Commitments and Contingent Liabilities

As at 30 June 2006, our capital commitments were US$26 million (2005: US$17 million). As at the same date, we had no contingent liabilities.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Pledge of Assets

A subsidiary of the Company namely Foxconn Oy has pledged its property, plant and equipment, trade receivables and inventories of approximately US$41 million with a floating charge to secure general banking facilities granted to it. As at 30 June 2006, our Group's general banking facilities amounted to approximately US$1,670 million, of which approximately only US$140 million were utilized.

Outlook

In summary, with the positive business momentum continuing since beginning of the year, we are confident that 2006 will be another excellent year for our Company. We will continue to work closely with our customers to deliver the best performance results for the remaining months to come.

Employees and Remuneration Policies

As at 30 June 2006, our Group had a total of 66,174 employees. Total staff costs incurred during the period of six months ended 30 June 2006 amounted to US$159 million (2005: US$151 million). We offer a comprehensive remuneration policy which is reviewed by the management on a regular basis.

Our Company has adopted a share scheme and a share option scheme respectively. The share option scheme complies with the requirements as set out in Chapter 17 of the Listing Rules. The purposes of the schemes are to incentivize eligible participants who contribute to our Group's operations.

The Company granted options to employees under the share option scheme.