

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF RESULTS AND OPERATIONS

The year 2006 was another year of record-setting results, in revenues as well as in net profits. Revenue for the year reached US\$10,381 million, which represents an increase of US\$4,017 million, or 63% over the prior year revenue of US\$6,364 million. Net profit also reached a record high of US\$718 million, representing an increase of 86% over the prior year amount of US\$386 million. Basic earnings per share for the period were US\$10.31 cents.

Despite the global handset shipment number reaching one billion, we saw consolidation pressure persisting in the intensifying competitive global handset OEM market. With such a backdrop, the unique total end-to-end solution offered through Foxconn's eCMMS business model has been highly appreciated by our existing and new customers. Our integration of mechanical and electrical engineering capabilities, augmented by our affiliate, Hon Hai Group companies' optical and channel expertise, continues to be instrumental in helping our customers cope better with shorter handset product life cycles and ever demanding innovative product designs.

Attentive to our key customers' changing needs to cope with dynamic shifts in the market resulting from consumers' capricious tastes and elusive demand, we continuously expand both depth and scope of capabilities and services to our key customers, not only in material sciences and surface treatment for form factor needs, but also in molding/tooling and engineering support for time to market and time to volume. We strive to be the partner of choice for our customers' technically demanding projects. We also continue to streamline our business to improve our efficiency and competitiveness so as to provide optimal pricing to our customers. Our fast growing design teams have engaged multiple projects and serving multiple customers. Our efforts to expand and optimize our overseas operations also remained active during the period, we had already started mass production in India during the second half of 2006, while continuing to expand strategic investments into the BRIC end markets to satisfy our customers' demand for co-location and foster even closer partnerships with our key customers.

Our affiliation with Hon Hai Group, also proves to be increasingly beneficial in light of the growing dominance of Hon Hai Group in many 3C key components. We continue to work with Hon Hai Group to further enhance the world's shortest possible supply chain that we had been providing our customers. While Hon Hai Group continues its expansion of vast collections of expertise, our close tie will continue to yield significant synergistic value-adds to our key customers.

In 2007, the global handset market will be volatile and dynamic, due to further industry convergence and consolidation pressure. We believe this is the time our unique value can be greater appreciated by our customers. As market share competition among OEM customers intensifies, FIH's speed for product development, volume ramp-up, engineering services, and scale of global operations match perfectly with our customers' specific needs. We are excited with the growth opportunities ahead of us. We will continue to execute our success formula to further enhance our vertical integration capabilities and service quality to our expanding customer base. We are confident that we can grow our customer base. We believe handset outsourcing trend will continue and we will be able to grow further with our customers.

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LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2006, we had a cash balance of US\$633 million. The cash balance is expected to finance our working capital and capital expenditure plans in light of our continuing fast growth. To reduce interest expenses, we used some of extra cash generated from operations to decrease net bank loans by US\$36 million in 2006. Our gearing ratio, expressed as a percentage of interest bearing external borrowings of US\$140 million over total assets of US\$4,502 million, is 3.1%.

Net cash generated from operating activities in 2006 was US\$859 million.

Net cash used in investing activities in 2006 was US\$538 million. Our expenditures for investing activities were primarily for purchase of property, plant and equipment related to our facilities in our major sites in China and India.

Net cash used in financing activities in 2006 was US\$14 million, primarily due to proceeds of US\$22 million from the issue of shares to employees and was used to reduce bank loan by US\$36 million in 2006.

PLEDGE OF ASSETS

As at the balance sheet date, the Group pledged property, plant and equipment having a carrying value of approximately US\$4.60 million (2005: US\$19.73 million) to secure general banking facilities granted to the Group.

CAPITAL COMMITMENTS

As at the balance sheet date, the capital commitment of the Group was US\$57.39 million (2005: US\$17.37 million).

SIGNIFICANT INVESTMENTS

In 2006 we had invested in our key sites in Asia and Americas to enhance our capabilities and capacities in the various regions to serve our customers. These investments were instrumental in winning more business and enhance working partnership with our key customers. We expect more such investments in 2007.

OUTLOOK

Looking forward, though we had again widening the gap between us and our peers, the Company is keenly aware of increased competition in the handset manufacturing business and complexity due to creative product designs and new technologies. We are keen to further strengthen the partnership with our existing customers, as well as diversifying our customer base. With this vision in mind, we will continue to expand our manufacturing base in Langfang, Taiyuan and India. With fundamental market growth intact, FIH is looking forward to another year of growth in 2007.

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EMPLOYEES

As at 31 December 2006, the Group had a total of 110,697 (2005: 59,070) employees. Total staff costs incurred during the year 2006 amounted to US\$377.04 million (2005: US\$298.25 million). The Group offers a comprehensive remuneration policy which is reviewed by the management on a regular basis.

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