



# Foxconn International Holdings Limited

富士康國際控股有限公司\*

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2038

## ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2006

The Board of Directors (“Board”) of Foxconn International Holdings Limited (“Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (“Group”) for the period of six months ended 30 June 2006 together with comparative figures for the previous corresponding period as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2006

		<b>Six months ended</b>	
		<b>30.6.2006</b>	30.6.2005
		<b>US\$’000</b>	US\$’000
	<i>NOTES</i>	<b>(unaudited)</b>	(unaudited)
Turnover	4	<b>4,377,930</b>	2,348,372
Cost of sales		<b>(3,936,093)</b>	(2,095,124)
Gross profit		<b>441,837</b>	253,248
Other income		<b>21,426</b>	22,953
Selling expense		<b>(10,766)</b>	(5,272)
General and administrative expense		<b>(68,515)</b>	(82,766)
Research and development expense		<b>(30,568)</b>	(18,854)
Interest expense on bank loans		<b>(8,092)</b>	(6,640)
Restructuring costs	5	<b>(7,881)</b>	–
Profit before tax	6	<b>337,441</b>	162,669
Income tax expense	7	<b>(37,183)</b>	(15,813)
Profit for the period		<b>300,258</b>	146,856
Attributable to:			
Equity holders of the parent		<b>301,692</b>	146,856
Minority interests		<b>(1,434)</b>	–
		<b>300,258</b>	146,856
Earnings per share			
Basic	9	<b>US4.34 cents</b>	US2.18 cents
Diluted		<b>US4.20 cents</b>	N/A

# CONDENSED CONSOLIDATED BALANCE SHEET

AT 30 JUNE 2006

		30.6.2006 US\$'000 (unaudited)	31.12.2005 US\$'000 (audited)
	NOTES		
Non-current assets			
Property, plant and equipment	10	770,840	661,792
Prepaid lease payments		6,284	6,306
Goodwill		63,075	63,075
Available-for-sale investments		1,007	1,028
Deferred tax assets	11	10,414	10,094
Deposits for acquisition of property, plant and equipment		26,207	22,263
		<b>877,827</b>	764,558
Current assets			
Inventories		672,779	513,999
Investments held for trading		6,058	7,193
Trade and other receivables	12	1,418,138	1,512,849
Bank deposits		23,322	48,925
Cash and cash equivalents		542,809	311,023
		<b>2,663,106</b>	2,393,989
Assets classified as held for sale	13	7,315	–
		<b>2,670,421</b>	2,393,989
Current liabilities			
Trade and other payables	14	1,473,419	1,408,740
Bank loans	15	140,056	175,548
Provision	16	41,027	23,635
Tax payable		40,210	20,856
		<b>1,694,712</b>	1,628,779
Liabilities associated with assets classified as held for sale	13	471	–
		<b>1,695,183</b>	1,628,779
Net current assets		<b>975,238</b>	765,210
		<b>1,853,065</b>	1,529,768
Capital and reserves			
Share capital		278,322	278,137
Reserves		1,561,900	1,236,833
Equity attributable to equity holders of the parent		1,840,222	1,514,970
Minority interests		10,809	12,047
Total equity		<b>1,851,031</b>	1,527,017
Non-current liabilities			
Deferred tax liabilities	11	2,034	2,751
		<b>1,853,065</b>	1,529,768

**NOTES TO THE CONDENSED FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2006**

**1. INDEPENDENT REVIEW**

The interim results for the period of six months ended 30 June 2006 are unaudited, but have been reviewed by the Company's auditors, Deloitte Touche Tohmatsu, in accordance with Statement of Auditing Standards 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Institute of Certified Public Accountants. The unmodified review report is included in the interim report to be sent to shareholders.

**2. BASIS OF PREPARATION**

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".

**3. 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 applied 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.

**4. 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.

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

## 5. RESTRUCTURING COSTS

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

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

## 6. PROFIT BEFORE TAX

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

## 7. 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
	<u>38,441</u>	<u>12,922</u>
Underprovision in prior years:		
PRC	90	–
Other jurisdictions	43	64
	<u>133</u>	<u>64</u>
Deferred tax:		
Current period ( <i>note 11</i> )	(1,391)	2,827
	<u>37,183</u>	<u>15,813</u>

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.

## 8. DIVIDEND

The directors do not recommend the payment of an interim dividend during the six months ended 30 June 2006.

## 9. 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)	<b>301,692</b>
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## Number of shares

Weighted average number of ordinary shares for the purposes of basic earnings per share	<b>6,958,056,025</b>
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	<b>7,186,634,752</b>

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.

## 10. 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 5).

Property, plant and equipment of US\$5,377,000 has been reclassified as assets held for sale as at 30 June 2006 (see note 13).

## 11. 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 <i>US\$'000</i>	Accelerated tax depreciation <i>US\$'000</i>	Tax losses <i>US\$'000</i>	Prepaid expenses <i>US\$'000</i>	Others <i>US\$'000</i>	Total <i>US\$'000</i>
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)
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
At 30 June 2005	<u>–</u>	<u>3,031</u>	<u>(4,075)</u>	<u>–</u>	<u>(55)</u>	<u>(1,099)</u>
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
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
At 30 June 2006	<u>(3,495)</u>	<u>2,034</u>	<u>(6,508)</u>	<u>–</u>	<u>(411)</u>	<u>(8,380)</u>

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:

	<b>30.6.2006</b> <b>US\$'000</b> <b>(unaudited)</b>	31.12.2005 <i>US\$'000</i> <b>(audited)</b>
Deferred tax assets	<b>(10,414)</b>	(10,094)
Deferred tax liabilities	<b>2,034</b>	2,751
	<u><b>(8,380)</b></u>	<u>(7,343)</u>

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 unpredictability 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.

## 12. 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
	<u>1,418,138</u>	<u>1,512,849</u>

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
	<u>1,388,858</u>	<u>1,488,078</u>

## 13. 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. 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	<u>1,615</u>
Total assets classified as held for sale	<u>7,315</u>
Trade and other payables, and liabilities associated with assets classified as held for sale	<u>471</u>



#### 14. TRADE AND OTHER PAYABLES

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

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

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

#### 15. 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.

#### 16. PROVISION

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

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.

## **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 to 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.

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.

## **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.

## **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY**

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the period of six months ended 30 June 2006.

## **AUDIT COMMITTEE**

The Company has established an audit committee in accordance with the requirements of the Listing Rules and the Code on Corporate Governance Practices ("CCGP"). Its primary duties are to review and supervise the Company's financial reporting process and internal control system, nominate and monitor external auditors and provide advices and comments to the Board. The audit committee is comprised of three non-executive directors, two of whom are independent non-executive directors.

The audit committee has reviewed the unaudited interim results of the Group for the period of six months ended 30 June 2006.

Further, the interim results for the period of six months ended 30 June 2006 are unaudited, but have been reviewed by the Company's auditors, Deloitte Touche Tohmatsu, in accordance with Statement of Auditing Standards 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Institute of Certified Public Accountants.

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") as set out in Appendix 10 to the Listing Rules. The Company made specific enquiry of all directors and all the directors confirm that they have complied with the Model Code and the Company's code of conduct.

## **CORPORATE GOVERNANCE**

None of the directors of the Company is aware of information that would reasonably indicate that the Company is not, or was not for any part of the period covered by the interim report, in compliance with the CCGP as set out in Appendix 14 to the Listing Rules save as disclosed in this announcement.

Under code provision A.2.1 of the CCGP, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Chin Wai Leung, Samuel currently holds both positions. The Board has reviewed the roles of chairman and chief executive officer and considers that the present arrangement for Mr. Chin, the chairman, to hold the office of chief executive officer of the Company at the same time, is still necessary in the continuation of the smooth implementation of business plan and efficient formulation of business strategies of the Group. The Board believes that Mr. Chin holding both offices of the chief executive officer and chairman is beneficial to and in the interests of the Company and its shareholders as a whole; notwithstanding that, in the spirit of corporate governance, the Board will review in the current year the roles of chairman and chief executive officer and, if considered appropriate, separate the two roles in compliance with code provision A.2.1 of the CCGP.

## **DISCLOSURE OF INFORMATION ON THE STOCK EXCHANGE'S WEBSITE**

The 2006 interim report of the Company containing all the information required by the Listing Rules will be dispatched to the shareholders of the Company and made available on the website of The Stock Exchange of Hong Kong Limited in due course.

By Order of the Board  
**Chin Wai Leung, Samuel**  
*Chairman and Chief Executive Officer*

Hong Kong, 1 September 2006

*\* For identification purposes only*

*As at the date of this announcement, the executive directors are Messrs. Chin Wai Leung, Samuel and Dai Feng Shuh, the non-executive directors are Messrs. Chang Ban Ja, Jimmy, Lee Jin Ming and Lu Fang Ming and Miss Gou Hsiao Ling and the independent non-executive directors are Messrs. Lau Siu Ki, Edward Fredrick Pensel and Mao Yu Lang.*

Please also refer to the published version of this announcement in The Standard.