2009 Annual Report

FIH®

FOXCONN INTERNATIONAL HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2038

CONTENTS

	Page(s)
Corporate Information	2
Chairman's Statement	3
Management Discussion and Analysis	5
Profile of Directors and Senior Management	9
Report of the Directors	14
Independent Auditor's Report	26
Consolidated Statement of Comprehensive Income	28
Consolidated Statement of Financial Position	30
Consolidated Statement of Changes in Equity	32
Consolidated Statement of Cash Flows	33
Notes to the Consolidated Financial Statements	35
Financial Summary	107
Corporate Governance Report	108

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

CHIN Wai Leung, Samuel
(Chairman and Chief Executive Officer)
CHIH Yu Yang

NON-EXECUTIVE DIRECTORS

CHANG Ban Ja, Jimmy
GOU Hsiao Ling
LEE Jin Ming
LU Fang Ming

INDEPENDENT NON–EXECUTIVE DIRECTORS

LAU Siu Ki
Daniel Joseph MEHAN
CHEN Fung Ming

COMPANY SECRETARY

TANG Wan Mui

REGISTERED OFFICE

Scotia Centre, 4th Floor
P.O. Box 2804, George Town
Grand Cayman
Cayman Islands

HEAD OFFICE

2, 2nd Donghuan Road
10th Yousong Industrial District
Longhua, Baoan
Shenzhen City, Guangdong Province
People's Republic of China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

8/F., Peninsula Tower
538 Castle Peak Road
Cheung Sha Wan
Kowloon
Hong Kong

AUDITORS

Deloitte Touche Tohmatsu

LEGAL ADVISOR

Norton Rose Hong Kong

PRINCIPAL BANKERS

Agricultural Bank of China
Bank of China
China Construction Bank
China Merchant Bank
Chinatrust Commercial Bank
Citibank N.A.
Industrial and Commercial Bank of China
ING Bank N.V.
Mizuho Corporate Bank, Ltd.
Standard Chartered Bank
Taipei Fubon Bank
Taishin International Bank
The Hongkong and Shanghai Banking Corporation Limited

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House, 68 Fort Street
P.O. Box 705
George Town
Grand Cayman
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
46th Floor, Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

STOCK CODE

2038

CHAIRMAN'S STATEMENT

Dear Shareholders,

The year 2009 was a period of recovery from one of the most traumatic times in business history. Although we have seen improvements; uncertainty in the markets, extremely high levels of unemployment and battered consumer confidence remain key concerns of most enterprises, large and small. The damage to the global economy was extensive and recovery will take time. During this period, we continued to focus on building a stronger and more competitive enterprise.

On behalf of our global management team, I hereby present to you the operating results of Foxconn International Holdings Limited ("FIH") for the financial year ended 31 December 2009.

Revenue for the year reached US$7,214 million, which represents a decrease of US$2,057 million, or 22.19% over the prior year revenue of US$9,271 million. Net profit for the year was US$39 million, which represents a decrease of 67.77% over the prior year amount of US$121 million. Basic earnings per share for the year was US0.55 cents.

In 2009, we continued to execute a number of major restructuring programs, which commenced in the latter part of 2008 to adjust the scale of operations to the appropriate business level. We have further modified our global manufacturing footprint by disposing of our Yantai facilities and have also reduced our work forces and disposed of assets in several other manufacturing sites. We believe that we have completed most of the necessary restructuring efforts, however due to the dynamic nature of our business, we remain attentive to our scale of operations.

Recent economic uncertainty has created an environment of extreme price pressures that has impacted all suppliers in the handset food chain. This intensely competitive landscape, despite our efforts of cost control and cost optimization in every area of our business, has impacted the profitability of FIH. Your management team will continue its pursuit of operating profit and we hope that FIH's operating profit level will soon be more commensurate with management's efforts.

Looking ahead to 2010, we remain cautious but are optimistic. Although the global economy and the handset industry remain challenging, the increasing demand in the smart phone segment is very encouraging and positive for FIH. This growing trend gives creditability to our extensive investment in smart phone engineering and software development resources. Our product development capabilities in this area will be critical and attractive to our current partners, and will be instrumental in their decision to award business to FIH. Moreover, the marketing of this core competence will also support our efforts to increase and diversify our customer base.

CHAIRMAN'S STATEMENT

Another positive development results from the ongoing convergence of the 3C industries (computer, communication and consumer electronics). Our continued investment in engineering talent enables FIH to complement and supplement our strategic partners in developing a broader range of products than the typical handset or smart phone. Our engineering capabilities, "one-stop shopping" model, and cost efficient supply chain are valuable assets that enable us to compete in any environment.

On behalf of the management team, I would like to take this opportunity to express our gratitude to those who have supported and encouraged us in 2009, despite a most difficult environment, including but not limited to all members of the Board for their valuable input and critical analysis, all employees for their hard work, and the families of the employees for their patience and sacrifices.

FIH is fortunate to partner with the top-tier customers of the world. We remain thankful for our customers' long term support and we remain motivated to serve them in the best possible way. We would also like to thank our shareholders for their continued confidence in management. We are committed to do our utmost in maximizing the value of FIH.

With best regards,

Chin Wai Leung, Samuel
Chairman & Chief Executive Officer

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF RESULTS AND OPERATIONS

The global economy and industries had seen the worst hit in history during the aftermath of 2008/2009 financial tsunami. Although after the joint effort of governments worldwide to provide liquidity, the badly shaken global consumer confidence had not restored to its former level. With Greece and the rest of Europe's economic weaknesses lurking, full visibility of the macro environment is still await to be seen.

Despite our efforts to further diversify customer base and mitigate economic and/or customer specific risks, revenue for the year 2009 was US$7,214 million, which represents a decrease of US$2,057 million, or 22.19% over the prior year revenue of US$9,271 million.

Due to lower demand and pricing resulting from the global economic downturn, higher operating costs resulting primarily from lower utilization of facilities, changes in product mix, relocation of certain production facilities, restructuring and impairment losses of our global operations, continued long-term investment in research and development activities, exchange rate volatility as well as higher consolidated income tax rate, profit for the year 2009 attributable to equity holders of the Company was US$39 million, representing a decline of 67.77% over the prior year amount of US$121 million, but significantly recovered from 2009 interim level of loss of US$19 million. Basic earnings per share for the year 2009 were US0.55 cents.

In 2009, the persistent macro economic difficulties had created serious impact to the handset industry worldwide. Overall growth of handset sales slowed down and we saw tremendous pressure on industry OEM players for better cost control and supply chain management. It is in these times, when industry consolidation intensified and 3C (computer, communication and consumer electronics) convergence introduced new formidable competing forces into the market place, FIH's vertical integration capabilities and eCMMS strengths get even more appreciated by our customers, who are facing increasing challenges to respond to the ever-changing consumer demand and operating environment. We believe our support to customers has proven critical to their operations in this tough business environment.

Smart phone growth has been a hallmark of 2009; new entrants to the market continued to see their wireless smart hand-held market shares grow. We, therefore, continued to expand the depth and scope of our R&D teams' capabilities in our design centers in Taipei, Beijing, Nanjing and Seoul. Although investments in research and developments typically may not create immediate returns, we, nevertheless, are committed to assist our customers in joint development and joint design projects for state-of-the-art smart handheld devices. We believe these investments remain instrumental to our future success.

MANAGEMENT DISCUSSION AND ANALYSIS

Our major site-consolidation and resources-alignment efforts continued in 2009. We disposed the land and its holding entity in Yantai as part of the re-launched development efforts for the new Korean customer's business. We also continued the right-sizing actions for our sites world-wide and turned around less satisfactory performance of a number of them. We also persistently pushed for re-locations of our teams and capacity to the new sites in northern China for the purposes of lowering costs and easier hiring of workers. All these actions formed integral parts of our consistent strategy for optimal resources deployment and manufacturing platform consolidation.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2009, we had a cash balance of US$1,201 million. The cash balance is expected to be able to finance our operations. Our gearing ratio, expressed as a percentage of interest bearing external borrowings of US$363 million over total assets of US$5,635 million, was 6.44%. External borrowings were reduced in 2009 as we had surplus cash to repay the borrowings. We borrowed in weaker currency with shorter tenors and tried to pile up the stronger currency. In 2009 most of the borrowings were denominated in US Dollars and rarely we did borrow Renminbi for very short period of time in Chinese entities. We borrowed according to real demand and there was no bank committed borrowing facilities and no seasonality of borrowing requirements. The outstanding interest bearing external borrowings were all at fixed rate ranging from 0.35% to 1.58% per annum with original maturity of three to six months.

Net cash generated from operating activities for the year ended 31 December 2009 was US$665 million.

Net cash used in investing activities for the year ended 31 December 2009 was US$69 million, of which, mainly, US$122 million was the expenditures on property, plant and equipment related to the facilities in our major sites in China, US$26 million increased in bank deposit, US$26 million represented government subsidies received, US$27 million represented proceeds from disposal of property, plant and equipment and US$30 million represented proceeds from disposal of subsidiaries.

Net cash used in financing activities for the year ended 31 December 2009 was US$106 million, primarily due to net decrease in bank loans of US$116 million and proceeds of US$10 million from issue of shares under the share option scheme and the share scheme.

MANAGEMENT DISCUSSION AND ANALYSIS

EXPOSURES TO CURRENCY RISK AND RELATED HEDGES

In order to mitigate foreign currency risks, the group actively utilized natural hedge technique to manage its foreign currency exposures by non-financial methods, such as managing the transaction currency, leading and lagging payments, receivable management, etc.

Besides, the group sometimes entered into short-term foreign currency forward contracts (usually with tenor less than 6 months) to hedge the currency risk resulting from its short-term bank loans (usually with tenors less than 6 months) denominated in the foreign currencies. Also, the group, from time to time, utilized a variety of foreign currency forward contracts to hedge its exposure to foreign currencies.

CAPITAL COMMITMENTS

As at 31 December 2009, the capital commitment of the group was US$76.5 million (2008: US$108.5 million). Usually, the capital commitment will be funded by cash generated from operations.

PLEDGE OF ASSETS

A subsidiary of the Company has pledged its corporate assets of approximately US$5.8 million (2008: US$5.6 million) to secure general banking facilities granted to the group.

SIGNIFICANT INVESTMENTS

We had completed a significant part of the construction work for our sites in China by year end 2008 as part of our multi-year global manufacturing transition to lower cost areas. Without the large scale capital expenditure like prior years, we believe we had executed most of such transition and rationalization efforts in 2009.

OUTLOOK

In 2010, while the overall economic and consumer confidence seem to improve from the trough, Greece and rest of Europe still could bring more uncertainties and macro risks to global economy. To cope with these challenges, we are determined to further strengthen our partnerships with existing customers as well as diversifying our customer base. We believe our unique value proposition and execution, coupled with Hon Hai group's strengths, will prove to be a steady support to our customers in a challenging market.

Looking forward, we will continue to enhance our speedy product development capabilities, dedicated engineering services, timely and flexible volume ramp in production and optimal scale of global operations for customers. Our fundamental competitive strength is intact and we are confident that we can develop much closer partnerships through effective supply chain streamlining for our key customers. With that, we will be in a good position to take on more out-sourcing business and further grow our market share in the handset contract manufacturing industry.

MANAGEMENT DISCUSSION AND ANALYSIS

EMPLOYEES

As at 31 December 2009, the group had a total of 118,702 (2008: 108,237) employees. Total staff costs incurred during the year 2009 amounted to US$485 million (2008: US$672 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 Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

The emolument payable to the directors of the Company is determined by the board of directors of the Company from time to time with reference to the prevailing market practice, their duties and responsibilities with the Company and their contributions to the Company.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

CHIN Wai Leung, Samuel, aged 59, joined the Company as the Chairman and Chief Executive Officer in July 2003. Mr. Chin joined Hon Hai Precision Industry Co. Ltd. ("Hon Hai"), a company listed on the Taiwan Stock Exchange Corporation and the ultimate controlling shareholder of the Company, and its subsidiaries ("Hon Hai Group") in 2000, and had been one of the principal managers responsible for the handset manufacturing services business of the Hon Hai Group since July 2000, which is now wholly-owned and operated by the Company. He is also a director of Success World Holdings Limited, Foxconn Oy and FIH Co., Ltd., being subsidiaries of the Company. Before joining the Company, Mr. Chin held senior executive positions in EFA Corporation, Atari Corporation and Commodore Electronics Limited with responsibilities ranging from sales and marketing, global procurement, manufacturing, pricing, purchasing, contract negotiation, accounting and finance. With over 25 years of marketing, sales and operational experience in the global computer and electronics industries, he has worked in an international environment. Mr. Chin was awarded a Juris Doctor degree from the University of Pennsylvania Law School in 1976 and a Bachelor of Science degree in Economics from Wharton School, University of Pennsylvania, US in 1973.

CHIH Yu Yang, aged 51, joined the Company as an executive Director in August 2009. Mr. Chih is the chairman and chief executive officer of Chi Mei Communication Systems, Inc. ("CMCS") in Taiwan, which is the primary mobile handset design services arm of the group, a subsidiary of the Company. Mr. Chih joined the group in 2005 when the group acquired CMCS. Prior to that, Mr. Chih was the founder of CMCS since its establishment in 2001. He has 30 years of extensive experience in the communication industries. From 1997 to 2001, Mr. Chih was the vice president and general manager of Communication B.U. in BenQ (formerly Acer Communication and Multimedia, Inc.) where he was responsible for the BenQ's cellular phone business. Prior to that, he held various engineering and managerial positions in companies including ITT Corporation, GTE Corporation and Rockwell Semiconductor Systems. Mr. Chih obtained a Bachelor of Science degree in Electrical Engineering from National Tsing Hwa University in Taiwan in 1980.

CHANG Ban Ja, Jimmy, aged 66, joined the Company as a non-executive Director in December 2004. Mr. Chang is the executive vice president of Hon Hai following his assignments as the president of Foxconn Corporation in the US and managing director of Foxconn Singapore. Mr. Chang has been with Hon Hai since September 1989. He also spent over 34 years in internal audit, treasury, international investment analysis, controllership, sales and marketing functions. He had previously been associated with Arthur Young, Kaiser Aluminum & Chemical Corporation, Memorex and Atari Corporation. Mr. Chang obtained a Master of Business Administration degree from Santa Clara University, California, US in 1970.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

GOU Hsiao Ling, aged 31, joined the Company as a non-executive Director in December 2004. Prior to taking up the directorship with the Company, Ms. Gou worked for Hon Hai as a tax manager since September 2001. She is also the chairman of Yonglin Foundation. Prior to joining the Company, she was previously also a tax consultant at PricewaterhouseCoopers in Taipei, Taiwan and an analyst with Goldman Sachs International Limited, and has over 7 years of experience in the finance industry. Ms. Gou received a Bachelor's degree in Economics from the University of California, Berkeley, US in 2001. Ms. Gou is the daughter of Mr. Gou Tai Ming, the founder, is the present chairman of the board of directors and president of Hon Hai.

LEE Jin Ming, aged 57, joined the Company as a non-executive Director in December 2004. He is also the chief accounting officer of Hon Hai. Prior to joining Hon Hai in October 1997, Mr. Lee was a senior financial manager with Philips and Chase Manhattan Bank. He is a director of Foxconn (Far East) Limited. Mr. Lee has over 30 years of banking, corporate finance and accounting related international financial experience. Mr. Lee obtained a Bachelor of Arts degree from the National Chengchi University, Taiwan in 1974.

LU Fang Ming, aged 55, joined the Company as a non-executive Director in December 2004. He has been an executive vice president and a general manager of Hon Hai since the intelligent hub and switch products ODM manufacturing company he founded was acquired by Hon Hai in May 2000. Prior to joining Hon Hai, he was a vice president and general manager at Cirrus Logic/Crystal Semiconductor in charge of its Asia Pacific operations. Prior to that, Mr. Lu spent 20 years with Hewlett-Packard in various positions including general manager of the HP Taiwan Computer System Group and QMS director of the HP Asia Pacific Test & Measurement Group. Mr. Lu graduated from Chung-Yuan University, Taiwan in 1980.

LAU Siu Ki, aged 51, joined the Company as an independent non-executive Director in December 2004. With over 26 years of experience in corporate finance, financial advisory and management, accounting and auditing, Mr. Lau is currently a financial advisory consultant running his own management consultancy firm, Hin Yan Consultants Limited. Previously, Mr. Lau worked at Ernst & Young for over 15 years. He graduated from Hong Kong Polytechnic in 1981. Mr. Lau is a member of both the Association of Chartered Certified Accountants ("ACCA") and Hong Kong Institute of Certified Public Accountants. Mr. Lau is now a member of the World Council of ACCA. He has served on the executive committee of the Hong Kong branch of ACCA ("ACCA Hong Kong") since 1995, and was the chairman of ACCA Hong Kong in 2000/2001. During these years, he has helped raising the profile of ACCA. Mr. Lau also serves as an independent non-executive director in Binhai Investment Company Limited, Carry Wealth Holdings Limited, COL Capital Limited, Comba Telecom Systems Holdings Limited, Embry Holdings Limited, Greenfield Chemical Holdings Limited, Proview International Holdings Limited, Samson Holding Ltd. and TCL Communication Technology Holdings Limited.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

Dr. Daniel Joseph MEHAN, aged 65, joined the Company as an independent non-executive Director in July 2007. Dr. Mehan was the chief information officer of the Federal Aviation Administration from 1999 to 2005. Prior to that, Dr. Mehan was senior level executive who held a variety of leadership positions at AT&T for over 20 years, including international vice president and international chief information officer. Dr. Mehan has strong background in information systems, cyber security, business management, marketing initiatives and technology development. Dr. Mehan received both his Ph.D. in Operations Research and Master of Science in Systems Engineering from University of Pennsylvania, US.

CHEN Fung Ming, aged 63, joined the Company as an independent non-executive Director in November 2008. Mr. Chen is the chairman of Prolight Opto Technology Corp. in Taiwan which provides high power LED packaging for lighting application. From 2006 to 2008, Mr. Chen was a director of Beyond Innovation Technology Corp. in Taiwan specialising in IC design for video application. He has extensive experience in the electronics and lighting industries. Mr. Chen obtained a Bachelor of Science degree in Physics from Fu Jen University in Taiwan in 1970. He also received from the University of Wisconsin, Madison, US a Master of Science degree in Physics and a Master of Science degree in Computer Science in 1974.

SENIOR MANAGEMENT

CHEN Hsu Tang, Tom, aged 45, joined the Company as vice president, business development in July 2003, and had been one of the principal managers responsible for the handset manufacturing services business of the Hon Hai Group since October 2001 when he became a vice president of Hon Hai. He is also a director of principal operating subsidiaries of the Company, namely Foxconn Mexico Precision Industry, Co. SA de CV. and Honxun Electrical Industry (Hangzhou) Co., Ltd.. Mr. Chen joined Hon Hai in December 2000. Mr. Chen has over 20 years of experience in engineering, sales and general management in the telecommunications and components industries. Previously, Mr. Chen was the director of supply chain at Axxion Group Corporation in Texas, US. He was also the founder and chief executive officer of Jefferson Rubber Technologies in Texas, US. He had also worked at International Business Machines Corporation in New York as a telecommunications engineer. Mr. Chen obtained a Master of Science degree in Industrial Engineering from Columbia University, NY, US in 1991.

CHAO Shan Ping, Henry, aged 53, joined the Company as director of electronic parts production and assembly in June 2004. Before joining the Company, Mr. Chao was with Hon Hai since September 1996 and was responsible for SMT and computer motherboard manufacturing processes and had been one of the principal managers responsible for the handset manufacturing services business of the Hon Hai Group since March 2001. He is also a director of principal operating subsidiaries of the Company, namely Honxun Electrical Industry (Hangzhou) Co., Ltd. and FIH Technology Korea Ltd.. Prior to that, Mr. Chao held various production and engineering management positions with Wang Computer and Delta Electronics. He has over 25 years of experience in engineering management. Mr. Chao received a Bachelor's degree in Industrial Engineering from National Taipei University of Technology, Taiwan in 1978.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

KO Ming Chung, aged 47, joined the Company as director of mechanical production in June 2004. Before joining the Company, he was with Hon Hai since July 1992 and had been one of the principal managers responsible for the handset manufacturing services business of the Hon Hai Group since July 2000. Mr. Ko has almost to 25 years of mechanical engineering and production management experience. Prior to that, Mr. Ko held various positions in mechanical engineering and production with Philips and Matsushita Electric (Taiwan) Co., Ltd.. Mr. Ko received a Master of Science degree in Mechanical Engineering from National Taiwan University, Taiwan in 1992.

Dr. LEE Jer Sheng, aged 46, joined the Company as director of mechanical production in June 2004. Before joining the Company, he had worked for Hon Hai since February 1998 and had been one of the principal managers responsible for the handset manufacturing services business of the Hon Hai Group since January 2002. Dr. Lee has almost 18 years of mechanical engineering and production management experience. He is also a director of various principal operating subsidiaries of the Company, namely, Foxconn India Private Limited, Shenzhen Futaihong Precision Industrial Co., Ltd. and Foxconn Precision Component (Beijing) Co., Ltd.. Prior to that, Dr. Lee held various positions in automotive industry in Taiwan. Dr. Lee received a B.S. in Aerospace Engineering from National Cheng Kung University, Taiwan in 1986 and a Ph.D in Mechanical Engineering and Applied Mechanics from the University of Michigan (Ann Arbor), US in 1993.

Michael SMITH, aged 45, joined the Company as vice president, Mexico operations in May 2004. Mr. Smith has over 18 years of experience in the high technology electronics manufacturing industry. Prior to joining the Company, he worked at Motorola, Inc. for over 11 years in various manufacturing leadership roles. Currently, Mr. Smith is a member of senior management team as vice president of the Company's service division. Mr. Smith obtained a Master of Science degree in Electrical Engineering from the University of South Florida in Tampa, Florida, US in 1991.

Timo HARJU, aged 56, joined the Company as executive vice president and chief financial officer, European operations in October 2003, and had been one of the principal managers responsible for the handset manufacturing services business of the Hon Hai Group. Mr. Harju has over 25 years of executive experience in global multinational businesses in the areas of general and financial management, acquisition and integration management and had held directorships with several international companies. Before joining the Company, he served as president and chief executive officer of Foxconn Oy in the mobile telecommunications industry. Prior to that, he was vice president and regional director of Asia and South America of Ahlstrom Group, and was responsible for one of the Ahlstrom Group's global businesses for those regions. Mr. Harju had also served as vice president and chief financial officer of one of the global business groups of Ahlstrom Group being responsible for financial, strategic planning and information technology functions. Mr. Harju received a Master of Science degree from the University of Technology of Lappeenranta, Finland in 1981 and he also completed the International Executive Program at INSEAD, France in 1999.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

HSU Chung Chang, Jonathan, aged 48, joined the Company as treasurer in June 2004, and had been one of the principal managers responsible for the handset manufacturing services business of the Hon Hai Group since October 2003. Mr. Hsu has over 20 years of experience working in finance related areas and more than 11 years of experience in the area of electronic industry finance. Before joining the Company, he worked at Macronix International Co., Ltd. as treasury manager for about 5 years. Prior to that, he worked at Nikko Securities Co., Ltd. and served as assistant vice president of corporate finance for 5 years. Mr. Hsu obtained a Master of Business Administration degree in Finance from George Washington University, US in 1993.

TONG Wen Hsin, Vincent, aged 44, joined the Company as director of investments and investor relations in July 2004. Mr. Tong has over 17 years of experience in the investment banking, finance and information technology fields. Before joining the Company, Mr. Tong worked at ABN AMRO Rothschild, where he was a director of the equity capital markets department, responsible for the underwriting of various equity and equity-linked issues of Asian corporate clients. Prior to that, he worked in the equity capital markets department of Jardine Fleming and Robert Fleming in Hong Kong and London, as well as in the marketing and sales departments of International Business Machines Corporation in Taiwan. Mr. Tong holds a MBA degree from London Business School, United Kingdom, which he obtained in 1995.

TAM Kam Wah, Danny, aged 46, joined the Company as senior manager of financial control in October 2004. Mr. Tam is the chief accounting officer of the Company. Mr. Tam has over 22 years of experience in accounting and finance in Hong Kong listed companies and multinational companies. Prior to joining the Company, he worked as a financial controller for ITT Industries and Hutchison Harbour Ring Ltd., and he also worked as an accounting manager for Coates Brothers (HK) Co. Ltd.. Mr. Tam is a fellow of the Association of Chartered Certified Accountants, an associate of Chartered Institute of Management Accountants and an associate of Hong Kong Institute of Certified Public Accountants. Mr. Tam received an BBA from Chinese University of Hong Kong in 1988, a Master of Applied Finance from Macquarie University, Australia in 1994, a Master of Business Administration degree from University of Ottawa, Canada in 1996, and a Master of Arts degree in Information System and a Master of Arts degree in Electronic Business from City University of Hong Kong in 1999 and 2002 respectively. Mr. Tam also received a Master of Accounting from Jinan University in 2005.

Dr. PAO Yi Hsin, aged 54, joined the Company as vice president in July 2007. Dr. Pao has extensive experience in quality control on production and engineering. Prior to joining the Company, he worked as a general manager of quality control and engineering for Toyota Motor Manufacturing, North America. Dr. Pao previously also worked at Ford Motor Company in Dearborn, Michigan US as a plant manager and director of global core quality. Dr. Pao received a B.S. in Marine Engineering from National Taiwan Ocean University in 1978, a M.S. in Mechanical Engineering from University of Oklahoma in 1982, a Ph.D. in Applied Mechanics from The Ohio State University in 1988 and a Master of Business Administration degree from Michigan State University, US in 1998. Dr. Pao also authored a book on SMT assemblies reliability techniques published by McGraw Hill.

REPORT OF THE DIRECTORS

The board of directors ("Board") of the Company is pleased to announce this annual report, particularly the audited consolidated results of the Company and its subsidiaries ("Group") for the year ended 31 December 2009.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of the principal subsidiaries are set out in the financial statements on pages 102 to 105. The Group is a vertically integrated manufacturing services provider for handset industry worldwide. It provides a full range of manufacturing services to its customers in connection with the production of handsets.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2009 are set out in the financial statements on pages 28 to 29. The Board does not recommend the payment of any dividends in respect of the year ended 31 December 2009.

RESERVES

Movements in reserves of the Group during the year are set out on page 32.

DISTRIBUTABLE RESERVES

As at 31 December 2009, the Company's reserves available for distribution amounted to US$1,320,630,000.

SHARE CAPITAL

Details of the movements in the share capital during the year are set out in note 26 to the financial statements.

FINANCIAL SUMMARY

A financial summary of the results and the financial position of the Group for the last five financial years is set out on page 107.

PROPERTY, PLANT AND EQUIPMENT, AND INVESTMENT PROPERTIES

Details of movements in property, plant and equipment, and investment properties of the Group during the year are set out in note 14 and note 15 to the financial statements respectively.

BANK LOANS

Details of bank loans are set out in note 25 to the financial statements.

REPORT OF THE DIRECTORS

DIRECTORS

The directors of the Company during the year and up to the date of this annual report are:

Executive Directors

CHIN Wai Leung, Samuel
DAI Feng Shuh (resigned on 28 August 2009)
CHIH Yu Yang (appointed on 28 August 2009)

Non-executive Directors

CHANG Ban Ja, Jimmy
GOU Hsiao Ling
LEE Jin Ming
LU Fang Ming

Independent Non-executive Directors

LAU Siu Ki
Daniel Joseph MEHAN
CHEN Fung Ming

Having received written confirmations from each of the independent non-executive directors of their independence pursuant to rule 3.13 of the Listing Rules, the Company considers each independent non-executive director to be independent.

Pursuant to article 112 of the articles of association of the Company ("Articles"), one-third of the directors for the time being (or, if their number is not three or a multiple of three, then the number nearest to, but not exceeding one-third) shall retire from office by rotation at each annual general meeting of the Company provided that every director shall be subject to retirement by rotation at least once every three years. In accordance with article 112 of the Articles, Messrs. Lee Jin Ming and Lu Fang Ming will retire from office by rotation and will be eligible for re-election at the Company's forthcoming annual general meeting. Mr. Lee Jin Ming will offer himself for re-election at such meeting, whereas Mr. Lu Fang Ming will not offer himself for re-election due to his other business commitment in Hon Hai group. Mr. Lu has confirmed that he has no disagreement with the Board and there is no other matter relating to his retirement that needs to be brought to the attention of the Shareholders. Pursuant to article 95 of the Articles, Mr. Chih Yu Yang, appointed as an executive director with effect from 28 August 2009, and being eligible, will offer himself for re-election at the Company's forthcoming annual general meeting.

SERVICE CONTRACTS

None of the directors of the Company has entered into a service contract with the Company which has not expired and which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company, any of its subsidiaries, its holding company or any subsidiary of the Company's holding company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of or at any time during the year.

DISCLOSURE OF INTERESTS

Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 2009, the interests and short positions, if any, of each director and chief executive of the Company in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the directors and chief executives were taken or deemed to have under such provisions of the SFO) or which were required to be and are recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or as otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") adopted by the Company were as follows:

Name of director	Name of corporation	Capacity/ Nature of interest	Total number of ordinary shares	Approximate percentage of interest in the Company/ associated corporation
Chin Wai Leung, Samuel	Company	Personal Interest	13,749,475	0.1937%
	Hon Hai	Personal Interest	642,493	0.0075%
Chih Yu Yang	Company	Personal Interest	2,659,610	0.0375%
	Hon Hai	Personal Interest	531	0.000006%
Chang Ban Ja, Jimmy	Hon Hai	Personal Interest	2,549,743	0.0297%
Lee Jin Ming *(Note 1)*	Hon Hai	Personal Interest	1,939,711	0.0226%
		Through a trust	56,000	0.0007%
Lu Fang Ming *(Note 2)*	Hon Hai	Personal Interest	2,099,623	0.0245%
		Family Interest	1,087,000	0.0127%
		Through a trust	754,400	0.0088%

REPORT OF THE DIRECTORS

Notes:

1. 56,000 shares are held by a trust of which Mr. Lee Jin Ming is the beneficiary. Accordingly, Mr. Lee Jin Ming is deemed to be interested in 56,000 shares which are held by the trust for the purposes of the SFO.

2. 1,087,000 shares are beneficially owned by Ms. Chen Hui Ling, the spouse of Mr. Lu Fang Ming, and his children under the age of eighteen. 754,400 shares are held by a trust of which Mr. Lu Fang Ming is the beneficiary. Accordingly, Mr. Lu Fang Ming is deemed to be interested in 1,087,000 shares which are beneficially owned by Ms. Chen Hui Ling and his children and 754,400 shares which are held by the trust for the purposes of the SFO.

Save as disclosed above, none of the directors or chief executives of the Company had, as at 31 December 2009, any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the directors and chief executives were taken or deemed to have under such provisions of the SFO) or which were required to be and are recorded in the register required to be kept by the Company under Section 352 of the SFO or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares

So far as is known to any director of the Company, as at 31 December 2009, shareholder (other than the directors or chief executives of the Company) who had interests and short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name of shareholder	Capacity/ Nature of interest	Total number of ordinary shares	Approximate percentage of interest in the Company
Foxconn (Far East) Limited	Beneficial owner	5,081,034,525	71.57%
Hon Hai *(Note)*	Interest of a controlled corporation	5,081,034,525	71.57%

Note: Foxconn (Far East) Limited is a direct wholly-owned subsidiary of Hon Hai, and therefore, Hon Hai is deemed or taken to be interested in the 5,081,034,525 shares which are beneficially owned by Foxconn (Far East) Limited for the purposes of the SFO.

REPORT OF THE DIRECTORS

Save as disclosed above, as at 31 December 2009, the Company had not been notified by any persons (other than the directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would be required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS

On 31 August 2009, Ever Lucky Industrial Limited ("Ever Lucky"), an indirect wholly-owned subsidiary of the Company, and Grand Deluxe Limited ("Grand Deluxe"), an indirect wholly-owned subsidiary of Hon Hai, entered into the sale and purchase agreement pursuant to which Grand Deluxe agreed to purchase and Ever Lucky agreed to sell 100% equity interests in Foxconn Precision Electronics (Yantai) Co., Ltd. ("Foxconn Precision"), a wholly-owned subsidiary of the Company, at a cash consideration of RMB223,839,000 subject to approvals obtained on or before 31 December 2009 from Investment Promotion Bureau, Yantai Economic and Technological Development Area and Investment Commission of the Ministry of Economic Affairs of Taiwan.

The principal reason for the Group to enter into the transaction is the Group's two new large-scale production plants in Langfang and Taiyuan, China commenced operation of transition, which provides the Group with sufficient production capacity to satisfy market demand in the foreseeable future. Hence, the disposal of the entire equity interests in Foxconn Precision will help simplify the Group's operation chain, improve efficiency in the management of its production facilities and decreases its general and administrative expenses.

On 11 November 2009, Ever Lucky and Grand Deluxe entered into the supplemental agreement pursuant to which Grand Deluxe agreed to procure funds to be made available to Foxconn Precision to enable Foxconn Precision to repay the entrusted loans in full to Shenzhen Futaihong Precision Industrial Co., Ltd., a wholly-owned subsidiary of the Company, at the completion of the connected transaction.

The Group entered into the following continuing connected transactions with Hon Hai, the Company's ultimate controlling shareholder, its subsidiaries or associates (collectively "Hon Hai Group"):

1. Product sales transactions between the Group and the Hon Hai Group *(Note 1)*;

2. Lease expense transactions between the Group and the Hon Hai Group *(Note 2)*;

3. General services expense transactions between the Group and the Hon Hai Group *(Note 3)*;

REPORT OF THE DIRECTORS

4. Sub-contracting income transactions between the Group and the Hon Hai Group *(Note 4)*;

5. Equipment sale and purchase transactions between the Group and the Hon Hai Group *(Note 5)*;

6. Materials and components supply transactions between the Group and the Hon Hai Group *(Note 6)*;

7. Lease income transactions between the Group and the Hon Hai Group *(Note 7)*;

8. General services income transactions between the Group and the Hon Hai Group *(Note 8)*; and

9. Consolidated services and sub-contracting expense transactions between the Group and the Hon Hai Group *(Note 9)*.

Notes:

1. This refers to the sale of certain products to the Hon Hai Group by the Group pursuant to the framework product sales agreement dated 18 January 2005 (as amended by the supplemental agreements dated 28 February 2006 and 24 October 2007 respectively) for an extended term commencing from 1 January 2008 to 31 December 2010. The total consideration for the year ended 31 December 2009 paid by the Hon Hai Group was US$99.802 million.

2. This refers to the properties leased by the Hon Hai Group to the Group pursuant to the framework lease agreement dated 18 January 2005 (as amended by the supplemental agreements dated 12 January 2006, 20 September 2006 and 24 October 2007 respectively) for an extended term commencing from 1 January 2008 to 31 December 2010. The total consideration for the year ended 31 December 2009 paid to the Hon Hai Group was US$6.691 million.

3. This refers to the general administrative, support, utility and other services provided by the Hon Hai Group to the Group pursuant to the general services agreement dated 18 January 2005 (as amended by the supplemental agreements dated 12 January 2006 and 24 October 2007 respectively) for an extended term commencing from 1 January 2008 to 31 December 2010. The total consideration for the year ended 31 December 2009 paid to the Hon Hai Group was US$43.994 million.

4. This refers to the sub-contracting services provided to the Hon Hai Group by the Group pursuant to the framework sub-contracting (income) agreement dated 18 January 2005 (as amended by the supplemental agreements dated 12 January 2006 and 24 October 2007 respectively) for an extended term commencing from 1 January 2008 to 31 December 2010. The total consideration for the year ended 31 December 2009 paid by the Hon Hai Group was US$20.823 million.

5. This refers to equipment purchased by the Group from and sold by the Group to the Hon Hai Group pursuant to the framework equipment purchase agreement dated 18 January 2005 (as amended by the supplemental agreements dated 12 January 2006 and 24 October 2007 respectively) for an extended term commencing from 1 January 2008 to 31 December 2010 and the framework equipment sale agreement dated 18 January 2005 (as amended by the supplemental agreements dated 12 January 2006 and 24 October 2007 respectively) for an extended term commencing from 1 January 2008 to 31 December 2010, respectively. The total consideration for the year ended 31 December 2009 for equipment purchase paid to the Hon Hai Group and equipment sale paid by the Hon Hai Group were US$6.779 million and US$28.707 million respectively.

REPORT OF THE DIRECTORS

6. This refers to the supply of materials and components by the Hon Hai Group to the Group pursuant to the framework materials and components supply agreement dated 19 January 2005 (as amended by the supplemental agreements dated 28 February 2006 and 24 October 2007 respectively) for an extended term commencing from 1 January 2008 to 31 December 2010. The total consideration for the year ended 31 December 2009 paid to the Hon Hai Group was US$306.273 million.

7. This refers to the properties leased by the Group to the Hon Hai Group pursuant to the framework lease agreement dated 24 October 2007 for a term commencing from 1 January 2008 to 31 December 2010. The total consideration for the year ended 31 December 2009 paid by the Hon Hai Group was US$2.466 million.

8. This refers to the general administrative, support, utility and other services provided by the Group to the Hon Hai Group pursuant to the framework general services agreement dated 24 October 2007 for a term commencing from 1 January 2008 to 31 December 2010. The total consideration for the year ended 31 December 2009 paid by the Hon Hai Group was US$5.991 million.

9. This refers to the research and development services, design services, repair services and sub-contracting services provided by the Hon Hai Group to the Group pursuant to the framework consolidated services and sub-contracting agreement dated 24 October 2007 for a term commencing from 1 January 2008 to 31 December 2010. The total consideration for the year ended 31 December 2009 paid to the Hon Hai Group was US$39.499 million.

Pursuant to rule 14A.38 of the Listing Rules, the Board engaged the auditors of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions of the Group to assist the directors to evaluate whether the transactions:

1. have received the approval from the Board;

2. were in accordance with the pricing policies of the Group where the transactions involve provision of goods and services by the Group;

3. have been entered into in accordance with the relevant agreements governing the transactions; and

4. have not exceeded the caps disclosed in the relevant announcements.

The auditors of the Company have performed procedures in respect of the transactions in accordance with Hong Kong Standard on Related Services 4400 *Engagements to Perform Agreed-Upon Procedures Regarding Financial Information*.

REPORT OF THE DIRECTORS

The auditors have reported their factual findings on these procedures to the Board. The independent non-executive directors of the Company have reviewed the transactions and the findings and confirmed that, the transactions are:

1. in the ordinary and usual course of business of the Group;

2. on normal commercial terms; and

3. in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

SHARE OPTION SCHEME AND SHARE SCHEME

A share option scheme ("Option Scheme") and a share scheme ("Share Scheme") were adopted by the Company on 12 January 2005. The Option Scheme shall be valid and effective until 2 February 2015. The Share Scheme was amended by the shareholders at the extraordinary general meeting of the Company held on 4 August 2006 and by the Board at the Board meeting of the Company held on 29 October 2009.

Option Scheme

Movements of the share options granted under the Option Scheme during the year are as follows:-

Outstanding at beginning of year	Date of grant during year	Granted during year	Vesting period	Exercise price	Exercised during year	Lapsed during year	Cancelled during year	Expired during year	Outstanding at end of year
305,700,192	–	–	each year on 25 July from 2006 to 2011	HK$6.06	12,268,150	30,881,175	119,854	–	262,431,013
2,400,000	–	–	each year on 16 July from 2008 to 2013	HK$20.63	–	–	–	–	2,400,000
308,100,192		–			12,268,150	30,881,175	119,854	–	264,831,013

REPORT OF THE DIRECTORS

Summary of Principal Terms of the Option Scheme

The purpose of the Option Scheme is to attract skilled and experienced personnel, to incentivize them to remain with the Group and to give effect to the Group's customer-focused corporate culture, and to motivate them to strive for the future development and expansion of the Group, by providing them with opportunities to acquire equity interests in the Company.

Subject to the terms of the Option Scheme, the Board may, at its absolute discretion, offer any employees, management members and directors of the Company, or any of its subsidiaries, and third party service providers, including employees of Hon Hai and its subsidiaries, options to subscribe for shares on the terms set out in the Option Scheme.

The total number of shares in respect of which options may be granted under the Option Scheme shall be 693,105,602 shares, representing approximately 9.72% of the issued share capital of the Company as at the date of this annual report.

The total number of shares issued and to be issued upon exercise of options granted and to be granted to each grantee in any 12-month period up to the date of the latest grant shall not exceed 1% of the issued share capital of the Company from time to time.

The period within which the options must be exercised will be specified by the Board at the time of the offer of grant, and must expire no later than 10 years from the effective date of the Option Scheme. An offer of grant of an option must be accepted by the date being a date not more than 30 days after the date of the offer. The amount payable on acceptance of an offer is HK$1.00.

The subscription price for shares in respect of an option grant shall be the highest of: (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; and (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the shares.

Information on the Share Scheme

The Share Scheme is not subject to the provisions of Chapter 17 of the Listing Rules. The trustee for the Share Scheme may either subscribe for new shares at nominal value or purchase shares from the market in accordance with the terms of the Share Scheme.

At the forthcoming annual general meeting of the Company, an ordinary resolution will be proposed to grant a general mandate to the directors of the Company to allot and issue shares under the Share Scheme not exceeding 2% of the issued share capital of the Company as at the date of such meeting ("Scheme Mandate").

REPORT OF THE DIRECTORS

As at 15 April 2010, the issued share capital of the Company comprised 7,133,028,954 shares of US$0.04 each. Subject to the passing of an ordinary resolution approving the Scheme Mandate and on the basis that no further shares will be issued, purchased or repurchased prior to the forthcoming annual general meeting, exercise in full of the Scheme Mandate will result in 142,660,579 shares being allotted and issued under the Scheme Mandate. On the basis of the closing price of HK$8.17 per share as at 15 April 2010 and the Scheme Mandate being exercised in full, the aggregate market value of the 142,660,579 shares to be allotted and issued pursuant thereto would be approximately HK$1,165,536,930. The Company expects that the costs attributable to the grant of any shares under the Share Scheme will be accounted for by reference to the market value of such shares at the time of grant. The Company will give due consideration to any financial impact arising from the grant of shares under the Share Scheme before exercising the Scheme Mandate.

Pursuant to the approval of the Board on 29 October 2009, the Company awarded 26,161,489 ordinary shares without lock-up period to 3,995 employees under the Share Scheme.

Apart from the Option Scheme and the Share Scheme, at no time during the year was the Company, any of its subsidiaries, its holding company or any subsidiary of the Company's holding company a party to any arrangement to enable the directors of the Company to acquire benefits by means of acquisitions of shares in, or debenture of, the Company or any other body corporate.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, sales to the Group's five largest customers accounted for approximately 93% of the Group's total sales for the year and sales to the Group's largest customer amounted to approximately 29%. Purchases from the Group's five largest suppliers accounted for approximately 55% of the Group's total purchases for the year and purchases from the Group's largest supplier amounted to approximately 22%.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the issued share capital of the Company as at the date of this annual report) had any interest in any of the Group's five largest customers and five largest suppliers.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company (other than service contracts with any director or any person engaged in the full-time employment of the Company) were entered into or existed during the year.

REPORT OF THE DIRECTORS

SUFFICIENCY OF PUBLIC FLOAT

As at the latest practicable date prior to the issue of this annual report, to the best knowledge of the directors and based on the information publicly available to the Company, there was sufficient public float as required by the Listing Rules.

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 year ended 31 December 2009.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the memorandum and articles of association of the Company and the Companies Law of the Cayman Islands.

PENSION SCHEMES

Details of the Group's pension scheme and the basis of calculation are set out in note 36 to the financial statements.

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 as set out in Appendix 14 to the Listing Rules ("CCGP"). Its primary duties are to review and supervise the Group's financial reporting process and internal control system, nominate and monitor external auditors and provide advice and comments to the Board. The audit committee is comprised of three non-executive directors, two of whom are independent non-executive directors (among whom one of the independent non-executive directors has the appropriate professional qualifications or accounting or related financial management expertise as required under the Listing Rules).

The audit committee has reviewed the audited financial statements of the Group for the year ended 31 December 2009.

CORPORATE GOVERNANCE

None of the director of the Company is aware of information that would reasonably indicate that the Company is not, or was not for any part of the year covered by this annual report, in compliance with the CCGP save as disclosed in the corporate governance report contained in this annual report.

REPORT OF THE DIRECTORS

AUDITORS

The financial statements have been audited by Deloitte Touche Tohmatsu who are due to retire and, being eligible, will offer themselves for re-appointment as auditors of the Company at the forthcoming annual general meeting of the Company.

On behalf of the Board
Chin Wai Leung, Samuel
Chairman and Chief Executive Officer

Hong Kong, 15 April 2010

INDEPENDENT AUDITOR'S REPORT

Deloitte.
德勤

TO THE SHAREHOLDERS OF FOXCONN INTERNATIONAL HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Foxconn International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 28 to 106, which comprise the consolidated statement of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to

INDEPENDENT AUDITOR'S REPORT

fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and the true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2009 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
15 April 2010

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

	NOTES	2009 US$'000	2008 US$'000
Turnover	6	**7,213,628**	9,271,042
Cost of sales		**(6,785,266)**	(8,628,552)
Gross profit		**428,362**	642,490
Other income, gains and losses	7	**168,909**	200,620
Selling expenses		**(19,200)**	(16,558)
General and administrative expenses		**(244,353)**	(311,249)
Research and development expenses		**(196,499)**	(231,267)
Impairment loss recognised for property, plant and equipment	14	**(34,089)**	(52,242)
Impairment loss recognised for goodwill	19	**(28,630)**	–
Interest expense	25	**(4,505)**	(31,811)
Impairment loss recognised for investment in an associate		**–**	(3,250)
Share of profits of associates		**1,440**	671
Profit before tax	8	**71,435**	197,404
Income tax expense	11	**(31,813)**	(75,465)
Profit for the year		**39,622**	121,939
Other comprehensive income			
Exchange differences arising on translation of foreign operations		**65,598**	(12,408)
Fair value changes of available-for-sale investments		**(1,836)**	(23,706)
Reclassification adjustment upon impairment of available-for-sale investments		**2,910**	–
Share of translation reserve of associates		**3,873**	(3,961)
Other comprehensive income for the year		**70,545**	(40,075)
Total comprehensive income for the year		**110,167**	81,864

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

	NOTES	2009 US$'000	2008 US$'000
Profit for the year attributable to:			
Owners of the Company		**38,587**	121,115
Minority interests		**1,035**	824
		39,622	121,939
Total comprehensive income attributable to:			
Owners of the Company		**108,669**	81,203
Minority interests		**1,498**	661
		110,167	81,864
Earnings per share	13		
Basic		**US0.55 cents**	US1.72 cents
Diluted		**US0.55 cents**	US1.70 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2009

	NOTES	2009 US$'000	2008 US$'000
Non-current assets			
Property, plant and equipment	14	1,823,185	2,072,738
Investment properties	15	38,330	–
Prepaid lease payments	16	161,421	169,827
Available-for-sale investments	17	1,619	3,898
Interests in associates	18	46,235	40,923
Goodwill	19	34,445	63,075
Deferred tax assets	20	33,016	20,077
Deposits for acquisition of property, plant and equipment		6,346	21,775
Deposits for prepaid lease payments		–	15,360
		2,144,597	2,407,673
Current assets			
Inventories	21	716,160	842,863
Investments held for trading	22	–	970
Trade and other receivables	23	1,412,821	1,438,638
Bank deposits	30	160,805	132,555
Bank balances and cash	30	1,200,725	705,037
		3,490,511	3,120,063
Current liabilities			
Trade and other payables	24	1,522,749	1,435,284
Bank borrowings	25	362,639	477,932
Provision	31	23,533	43,290
Tax payable		57,956	65,541
		1,966,877	2,022,047
Net current assets		1,523,634	1,098,016
Total assets less current liabilities		3,668,231	3,505,689

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2009

	NOTES	2009 US$'000	2008 US$'000
Capital and reserves			
Share capital	26	**283,995**	282,458
Reserves	27	**3,287,796**	3,138,875
Equity attributable to owners of the Company		**3,571,791**	3,421,333
Minority interests		**35,676**	34,178
Total equity		**3,607,467**	3,455,511
Non-current liabilities			
Deferred tax liabilities	20	**3,421**	8,673
Deferred income	32	**57,343**	41,505
		60,764	50,178
		3,668,231	3,505,689

The consolidated financial statements on pages 28 to 106 were approved and authorised for issue by the board of directors on 15 April 2010 and are signed on its behalf by:

CHIN WAI LEUNG, SAMUEL
DIRECTOR

CHIH YU YANG
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2009

	Attributable to owners of the Company										
	Share capital US$'000	Share premium US$'000	Special reserve US$'000 *(note 27)*	Legal reserve US$'000 *(note 27)*	Revaluation reserve US$'000	Translation reserve US$'000	Share compensation reserve US$'000	Retained profits US$'000	Total US$'000	Minority interests US$'000	Total US$'000
Balance at 1 January 2008	282,098	678,482	15,514	145,534	22,632	205,840	55,219	1,903,673	3,308,992	16,177	3,325,169
Profit for the year	–	–	–	–	–	–	–	121,115	121,115	824	121,939
Exchange differences arising on translation of foreign operations	–	–	–	–	–	(12,245)	–	–	(12,245)	(163)	(12,408)
Fair value changes of available-for-sale investments	–	–	–	–	(23,706)	–	–	–	(23,706)	–	(23,706)
Share of translation reserve of associates	–	–	–	–	–	(3,961)	–	–	(3,961)	–	(3,961)
Total comprehensive income for the year	–	–	–	–	(23,706)	(16,206)	–	121,115	81,203	661	81,864
Issue of ordinary shares under Option Scheme	360	8,431	–	–	–	–	(1,794)	–	6,997	–	6,997
Payments made for equity-settled share based payment *(note 37)*	–	–	–	–	–	–	(31,583)	–	(31,583)	–	(31,583)
Recognition of equity-settled share based payment *(note 37)*	–	–	–	–	–	–	55,724	–	55,724	–	55,724
Profit appropriations	–	–	–	310	–	–	–	(310)	–	–	–
Dividend paid to minority shareholder of a subsidiary	–	–	–	–	–	–	–	–	–	(1,168)	(1,168)
Capital contribution from minority shareholder of a subsidiary	–	–	–	–	–	–	–	–	–	18,508	18,508
Transfer *(note)*	–	–	–	–	–	–	(14,180)	14,180	–	–	–
Balance at 31 December 2008	282,458	686,913	15,514	145,844	(1,074)	189,634	63,386	2,038,658	3,421,333	34,178	3,455,511
Profit for the year	–	–	–	–	–	–	–	38,587	38,587	1,035	39,622
Exchange differences arising on translation of foreign operations	–	–	–	–	–	65,135	–	–	65,135	463	65,598
Fair value changes of available-for-sale investments	–	–	–	–	(1,836)	–	–	–	(1,836)	–	(1,836)
Reclassification adjustment upon impairment of available-for-sale investments	–	–	–	–	2,910	–	–	–	2,910	–	2,910
Share of translation reserve of associates	–	–	–	–	–	3,873	–	–	3,873	–	3,873
Total comprehensive income for the year	–	–	–	–	1,074	69,008	–	38,587	108,669	1,498	110,167
Issue of ordinary shares under Option Scheme and Share Scheme	1,537	34,244	–	–	–	–	(26,190)	–	9,591	–	9,591
Recognition of equity-settled share based payment *(note 37)*	–	–	–	–	–	–	32,198	–	32,198	–	32,198
Profit appropriations	–	–	–	8,241	–	–	–	(8,241)	–	–	–
Transfer *(note)*	–	–	–	–	–	–	(5,701)	5,701	–	–	–
Balance at 31 December 2009	283,995	721,157	15,514	154,085	–	258,642	63,693	2,074,705	3,571,791	35,676	3,607,467

Note:

The amount represents aggregate of the amount previously recognised in share compensation reserve in respect of those share options forfeited after vesting date, and of the amount previously recognised in share compensation reserve in respect of those vested share awards that are satisfied by issued ordinary shares purchased from the stock market.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2009

	NOTE	2009 US$'000	2008 US$'000
OPERATING ACTIVITIES			
Profit before tax		71,435	197,404
Adjustments for:			
Depreciation and amortisation		254,479	235,145
Impairment loss recognised for property, plant and equipment		34,089	52,242
Impairment loss recognised for goodwill		28,630	–
Impairment loss recognised for available-for-sale investments		3,356	–
Impairment loss recognised for investment in an associate		–	3,250
Loss on disposal of property, plant and equipment		2,235	3,625
(Reversal of) write down of inventories		(547)	16,496
Share-based payment expense		32,198	55,724
Interest expense		4,505	31,811
Interest income		(14,088)	(33,570)
Gain on disposal of subsidiaries		(2,397)	–
Deferred income recognised to income		(4,417)	(3,147)
Write back of allowance for doubtful debts		(294)	(466)
Share of profits of associates		(1,440)	(671)
Increase in fair value of investments held for trading		–	(583)
Operating cash flows before movements in working capital		407,744	557,260
Decrease in inventories		138,637	10,076
Decrease in trade and other receivables		46,333	846,722
Increase (decrease) in trade and other payables		138,807	(846,322)
Decrease in provision		(19,337)	(36,700)
Increase in deferred income		–	167
Cash generated from operations		712,184	531,203
Income taxes paid		(57,573)	(64,150)
Interest paid		(6,636)	(35,974)
Interest received		15,862	36,002
Proceeds on disposal of investments held for trading		970	–
Payments for share-based payment expense		–	(31,583)
NET CASH FROM OPERATING ACTIVITIES		664,807	435,498

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2009

	NOTE	2009 US$'000	2008 US$'000
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(121,855)**	(648,168)
(Increase) decrease in bank deposits for investing purpose		**(26,335)**	167,138
Increase in deposits for acquisition of property, plant and equipment		**(2,563)**	(1,956)
Prepaid lease payments made		**(1,314)**	(23,225)
Additions of investment properties		**(307)**	–
Proceeds on disposal of subsidiaries	29	**30,310**	–
Proceeds on disposal of property, plant and equipment		**26,908**	19,198
Government subsidies received		**25,680**	5,793
Investment in associates		**–**	(47,463)
NET CASH USED IN INVESTING ACTIVITIES		**(69,476)**	(528,683)
FINANCING ACTIVITIES			
Bank borrowings repaid		**(1,477,369)**	(5,585,866)
Bank borrowings raised		**1,361,510**	5,055,535
Proceeds from issue of shares		**9,591**	6,997
Capital contribution from minority shareholder of a subsidiary		**–**	18,508
Dividend paid to minority shareholder of a subsidiary		**–**	(1,168)
NET CASH USED IN FINANCING ACTIVITIES		**(106,268)**	(505,994)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**489,063**	(599,179)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**705,037**	1,255,117
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**6,625**	49,099
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**1,200,725**	705,037
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances and cash		**1,200,725**	705,037

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

1. GENERAL

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 company 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 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" in the annual report.

The Company and its subsidiaries (hereinafter collectively referred to as the "Group") are principally engaged as a vertically integrated manufacturing services provider for handset industry worldwide. The Group provides a full range of manufacturing services to its customers in connection with the production of handsets.

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

2. APPLICATION OF NEW AND REVISED ACCOUNTING STANDARDS

In the current year, the Group has applied the following new and revised International Financial Reporting Standards, amendments and interpretations ("new and revised IFRSs") issued by the International Accounting Standards Board which are or have become effective.

IAS 1 (Revised 2007)	Presentation of Financial Statements
IAS 23 (Revised 2007)	Borrowing Costs
IAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
IFRS 1 & IAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
IFRS 2 (Amendment)	Vesting Conditions and Cancellations
IFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
IFRS 8	Operating Segments
IFRIC – Int 9 & IAS 39 (Amendments)	Embedded Derivatives
IFRIC – Int 13	Customer Loyalty Programmes
IFRIC – Int 15	Agreements for the Construction of Real Estate
IFRIC – Int 16	Hedges of a Net Investment in a Foreign Operation
IFRIC – Int 18	Transfers of Assets from Customers

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

2. APPLICATION OF NEW AND REVISED ACCOUNTING STANDARDS *(Continued)*

IFRSs (Amendments)	Improvements to IFRSs issued in 2008, except for the amendment to IFRS 5 that is effective for annual periods beginning or after 1 July 2009
IFRSs (Amendments)	Improvements to IFRSs issued in 2009 in relation to the amendment to paragraph 80 of IAS 39

Except as described below, the adoption of the new and revised IFRSs has had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

IAS 1 (Revised 2007) Presentation of Financial Statements

IAS 1 (Revised 2007) has introduced a number of terminology changes, including revised titles for the consolidated financial statements, and has resulted in a number of changes in the presentation and disclosure.

IFRS 8 Operating Segments

IFRS 8 is a disclosure standard and has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments (see note 6).

Improving Disclosures about Financial Instruments (Amendments to IFRS 7 Financial Instruments: Disclosures)

The amendments to IFRS 7 expand the disclosures required in relation to fair value measurements in respect of financial instruments which are measured at fair value. The Group has not provided comparative information for the expanded disclosures in relation to fair value measurements in accordance with the transitional provision set out in the amendments.

IAS 23 (Revised 2007) Borrowing Costs

In previous years, the Group expensed all borrowing costs that were directly attributable to the acquisition, construction or production of a qualifying asset when they were incurred. IAS 23 (Revised 2007) removes the option previously available to expense all borrowing costs when incurred. The adoption of IAS 23 (Revised 2007) has resulted in the Group changing its accounting policy to capitalise all such borrowing costs as part of the cost of the qualifying asset. The Group has applied the revised accounting policy to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009 in accordance with the transitional provisions in IAS 23 (Revised 2007). As the revised accounting policy has been applied prospectively from 1 January 2009, it does not have a material impact on reported results and financial position of the Group for the current year. Accordingly, no adjustment has been recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

2. APPLICATION OF NEW AND REVISED ACCOUNTING STANDARDS *(Continued)*

The Group has not early applied the following new and revised Standards, Amendments or Interpretations that have been issued but are not yet effective.

IFRSs (Amendments)	Amendments to IFRS 5 as part of Improvements to IFRSs 2008[1]
IFRSs (Amendments)	Improvements to IFRSs 2009[2]
IAS 24 (Revised)	Related Party Disclosures[5]
IAS 27 (Revised)	Consolidated and Separate Financial Statements[1]
IAS 32 (Amendment)	Classification of Rights Issues[4]
IAS 39 (Amendment)	Eligible Hedged Items[1]
IFRS 1 (Amendment)	Additional Exemptions For First-time Adopters[3]
IFRS 1 (Amendment)	Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters[6]
IFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions[3]
IFRS 3 (Revised)	Business Combinations[1]
IFRS 9	Financial Instruments[7]
IFRIC – Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement[5]
IFRIC – Int 17	Distributions of Non-cash Assets to Owners[1]
IFRIC – Int 19	Extinguishing Financial Liabilities with Equity Instruments[6]

1 Effective for annual periods beginning on or after 1 July 2009.
2 Effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate.
3 Effective for annual periods beginning on or after 1 January 2010.
4 Effective for annual periods beginning on or after 1 February 2010.
5 Effective for annual periods beginning on or after 1 January 2011.
6 Effective for annual periods beginning on or after 1 July 2010.
7 Effective for annual periods beginning on or after 1 January 2013.

The application of IFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition date is on or after 1 January 2010. IAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

2. APPLICATION OF NEW AND REVISED ACCOUNTING STANDARDS *(Continued)*

IFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of IAS 39 "Financial Instruments: Recognition and Measurement" to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of IFRS 9 might affect the classification and measurement of the Group's financial assets.

The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the consolidated financial statements.

3. 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 International Financial Reporting Standards. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

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

Minority interests in the net assets (excluding goodwill) 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.

Business combinations

The acquisition of businesses 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 their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

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 business is carried at cost less any accumulated impairment losses and is presented separately in the consolidated statement of financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill *(Continued)*

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 profit or loss. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of the relevant cash-generating unit, the attributable amount of goodwill capitalised is included in the determination of the profit or loss on disposal.

Investments in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associates, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in associates *(Continued)*

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is not tested for impairment separately. Instead, the entire carrying amount of the investment is tested for impairment as a single asset. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment in the associate. Any reversal of impairment loss is recognised to the extent that the recoverable amount of the investment subsequently increases.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Revenue recognition

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

Revenue from sales of goods sold is recognised when goods are delivered and title has passed.

Service income is recognised when services are provided.

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 the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Property, plant and equipment

Property, plant and equipment, including freehold land and buildings held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress), are stated at cost less subsequent accumulated depreciation and accumulated impairment losses at the end of reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

Depreciation is provided to write off the cost of items of property, plant and equipment (other than construction in progress and freehold land) over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method. Land has an unlimit useful life is not depreciated.

Construction in progress represents property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other assets, commences when the assets are ready for their intended use.

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 profit or loss in the period in which the item is derecognised.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

If an item of property, plant and equipment becomes an investment property because its use has changed as evidenced by end of owner-occupation, such transfer do not change the carrying amount of the property transferred. On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is charged so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. 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 asset) is included in profit or loss in the period in which the item is derecognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Prepaid lease payments

Prepaid lease payments represent payment for leasehold interests in land under operating lease arrangements and are released to profit or loss over the term of relevant land leases.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

The Group as lessee

Rental payable under operating lease are charged to profit or loss on a straight-line basis over the term of the relevant lease. 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 the respective 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 the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that 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, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in other comprehensive income and accumulated in equity and will be reclassified from equity to profit or loss upon disposal of the foreign operation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

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 Group (i.e. US$) at the rate of exchange prevailing at the end of the reporting period, 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 in other comprehensive income and accumulated in equity (the translation reserve).

Goodwill and fair value adjustments arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of the reporting period. Exchange differences arising are recognised in other comprehensive income and accumulated in equity (the translation reserve).

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants related to depreciable assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets. Other government grants are recognised as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Retirement benefit costs

Payments to defined contribution retirement benefit plans are charged as an expense when employees have rendered service entitling them to the contributions.

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 the end of the reporting period. Actuarial gains and losses which exceed 10% of the greater of the present value of the Group's defined benefit obligations and the fair value of plan assets at the end of the previous reporting period 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.

The amount recognised in the consolidated statement of financial position 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 consolidated statement of comprehensive income 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 end of the reporting period.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, 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.

Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period 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 assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

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 (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;

- the intention to complete the intangible asset and use or sell it;

- the ability to use or sell the intangible asset;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Research and development expenditure *(Continued)*

- how the intangible asset will generate probable future economic benefits;

- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and

- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is reported at cost less accumulated amortisation and accumulated impairment losses.

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

At the end of the reporting period, 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 any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of impairment loss, if any. 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 weighted average method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments

Financial assets and financial liabilities are recognised on the Group's consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs 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 ("FVTPL"), loans and receivables and available-for-sale financial assets.

Effective interest method

The effective interest method is a method of calculating the amortised cost and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Financial assets at fair value through profit or loss

The Group's financial assets at fair value through profit or loss comprise financial assets held for trading.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not a designated effective hedging instrument.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Financial assets at fair value through profit or loss (Continued)

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses.

Available-for-sale financial assets

Available-for-sale financial assets of the Group are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, or loans and receivables.

Available-for-sale financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income and accumulated in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in equity is reclassified to profit or loss.

For available-for-sale equity investments that do not have quoted market price in an active market and the fair value cannot be reliably measured, the financial assets is carried at cost rather than fair value. When a reliable measure of fair value is no longer available, the fair value carrying amount of the financial asset on that date becomes new cost or amortised cost, as applicable. Any previous gain or loss on that asset has been recognised remained in equity until the financial asset is sold or otherwise disposed of, when the previous gain or loss in equity is reclassified to profit or loss. When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is reclassified to profit or loss even though the financial asset has not been derecognised.

Impairment of financial assets

Financial assets of the Group, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets (Continued)

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, 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.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount 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 loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets (Continued)

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent 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.

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in other comprehensive income and accumulated in equity.

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 a group entity after deducting all of its liabilities.

Financial liabilities

Financial liabilities including bank borrowings, trade 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.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

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 in other comprehensive income is recognised in profit or loss. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial assets and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities are derecognised 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 best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows where the effect is material.

Share-based payment transactions

Equity-settled share-based payment transactions

The fair value of services received determined by reference to the fair value of share options or ordinary shares 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). The fair value of the ordinary shares granted shall be measured at the market price of the shares, and the fair value of the share options granted shall be estimated by applying an option pricing model.

At the end of the reporting period, the Group revises its estimates of the number of options or ordinary shares that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognised in profit or loss with a corresponding adjustment to share compensation reserve.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payment transactions *(Continued)*

Equity-settled share-based payment transactions (Continued)

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 the vesting date or are still not exercised at the expiry date, the amount previously recognised in share compensation reserve will be transferred to retained profits.

At the time when new ordinary shares are issued pursuant to the grant, the fair value of the ordinary shares granted at the grant date will be transferred to share premium. When the ordinary share awards are forfeited after the vesting date, the amount previously recognised in share compensation reserve will be transferred to retained profits.

Cash-settled share-based payment transactions

For cash-settled share-based payments, the Group measures the goods or services acquired and the liability incurred at the fair value of the liability. At the end of the reporting period, the liability is remeasured at its fair value with changes in fair value recognised in profit or loss, to the extent to which the employees have rendered service during that period.

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, in the current and next financial years 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 value in use. Where the actual future cash flows are less than expected, an impairment loss may arise. In May 2005, the Company acquired Chi Mei Communications Systems, Inc., ("CMCS"), a company which specialises in ODM business. During the current year, the Group recognised an impairment loss of US$28,630,000 (2008: nil). The carrying amount of goodwill, net of impairment loss, at the end of the reporting period was US$34,445,000 (2008: US$63,075,000). Details of the impairment testing are provided in note 19.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

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 costs that may not be recoverable from suppliers for the rework, either in accordance with contractual terms or the Group's policy. In determining the amount of provisions, the management estimates the extent of repairs and replacements with reference to its past experience, technology needs and industry averages for defective products. 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. As at 31 December 2009, the provision is US$23,533,000 (2008: US$43,290,000).

Details of the movement on the provision are set out in note 31.

Income taxes

As at 31 December 2009, a deferred tax asset of US$2,812,000 (2008: US$374,000) in relation to unused tax losses of US$11,411,000 (2008: US$1,498,000) have been recognised in the Group's consolidated statement of financial position. No deferred tax asset has been recognised on the tax losses of US$419,462,000 (2008: US$308,640,000) due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future taxable profits or taxable temporary differences will be available in the future.

Deferred tax assets were also recognised for other deductible temporary differences on allowances for inventories, trade and other receivables, warranty provision, deferred income and other accrued expenses of approximately US$130,967,000 (2008: US$77,826,000).

At 31 December 2009, the Group has not recognised deductible temporary differences on allowances for inventories, trade and other receivables, warranty provision, deferred income and other accrued expenses of approximately US$134,370,000 (2008: US$111,632,000) as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

In cases where the actual future taxable profits generated are less or more than expected, a material reversal or recognition of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a reversal or recognition takes place.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

5. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2009 US$'000	2008 US$'000
Financial assets		
Loans and receivables	2,440,949	1,971,445
Available-for-sale financial assets	1,619	3,898
Fair value through profit or loss		
Investments held for trading	–	970
Derivatives	–	903
Financial liabilities		
Amortised cost	1,664,197	1,617,564
Fair value through profit or loss		
Derivatives	999	–

Financial risk management objectives and policies

The Group's major financial instruments include investments held for trading, available-for-sale investments, trade and other receivables, trade and other payables and bank borrowings. 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.

Market risk

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank loans (see note 25 for details of these borrowings). Cash flow interest rate risk in relation to variable-rate bank balances and deposits is considered insignificant. Accordingly, no interest rate sensitivity analysis is prepared.

Currency risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures. Foreign currency risk arises when the Group's recognised assets and liabilities are denominated in a currency that is not the group entity's functional currency.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

5. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Market risk (Continued)

Currency risk (Continued)

In order to mitigate the foreign currency risk, the Group manages its foreign currency exposures by non-financial techniques such as managing the transaction currency, leading and lagging payments, receivable management etc. In addition, the Group sometimes obtains bank borrowings in various foreign currencies and enters into short-term foreign currency forward contracts (less than 3 months) for hedging purpose. The Group utilises a variety of forward foreign currency contracts to hedge its exposure to foreign currencies on regular basis.

As at 31 December 2009, total notional amount of outstanding forward foreign exchange contracts that the Group has committed are approximately US$384,975,000 (2008: US$209,711,000), and their fair values are estimated to be approximately US$999,000 liabilities (2008: US$903,000 assets), and are included as other payables (2008: other receivables) at the end of the reporting period. The contracts mainly related to buying of Japanese Yen and US$ with maturities in first quarter of the following year.

The monetary assets and liabilities of group entities which are denominated in a currency other than their respective functional currency, are mainly bank balances and cash, trade and other receivables, trade and other payables and bank borrowings, denominated in US$, and are summarised as follows:

	2009 US$'000	2008 US$'000
Assets		
US$	784,236	1,036,841
Liabilities		
US$	(834,848)	(1,304,310)

The Group's bank borrowings of approximately US$322,291,000 (2008: US$335,829,000) at the end of the reporting period are denominated in US$ other than the functional currency of respective group entities and are included in the monetary liabilities disclosed above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

5. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Market risk (Continued)

Exchange rate sensitivity

At the end of the reporting period, if exchange rates of the functional currency of relevant group entities against US$ had been appreciated/depreciated by 3% and all other variables were held constant, the Group's profit would decrease/increase by approximately US$2,431,000 (2008: US$5,046,000) for the year.

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 2009 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. A major portion of the Group's trade debts are receivable from industry leaders or multinational customers with good 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. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period 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 on a 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 Group also seeks to maintain strict control over the creditability of customers and its outstanding receivables. In determining whether there is objective evidence of impairment loss, the Group takes into consideration of the future cash flows of the assets.

The credit risk on liquid funds is limited because the counterparties are banks with higher credit ratings assigned by international credit-rating agencies and long-term partners of the Group.

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the directors of the Company, who has built an appropriate liquidity risk management framework. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

5. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Liquidity risk (Continued)

The Group's objective is to balance the fund's continuity and flexibility through the use of bank borrowings. The maturity periods of the Group's bank borrowings are from three to six months and the maturity periods of other financial liabilities are within three months.

As at 31 December 2009, the Group has available unutilised banking facilities of approximately US$2,612,702,000 (2008: US$2,845,536,000).

Fair value

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions as inputs.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate to their fair values.

Fair value measurements recognised in the consolidated statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 2 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

	Level 1	**Level 2**	**Total**
	US$'000	**US$'000**	**US$'000**
2009			
Financial liabilities at FVTPL			
Derivative financial instruments	–	999	999

There were no transfers between Level 1 and 2 in the current year and there was no financial assets and financial liabilities classified under Level 3 as at 31 December 2009.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

6. SEGMENT INFORMATION

The Group has adopted IFRS 8 with effect from 1 January 2009. IFRS 8 requires operating segments to be identified on the basis of internal reports about the components of the Group that are regularly reviewed by the chief operating decision maker, the Chief Executive Officer, for the purpose of allocating resources to the segment and to assess its performance. In contrast, the predecessor standard (IAS 14, Segment Reporting) required an entity to identify two sets of segments (business and geographical) using a risks and returns approach. In the past, the Group's primary reporting format was geographical segments by location of customers. The application of IFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with IAS 14, nor has the adoption of IFRS 8 changed the basis of measurement of segment profit or loss.

The Group is currently organised into three operating segments based on the location of customers – Asia, Europe and America.

Segment revenue and results

The Group's revenue is mainly arising from the manufacturing services to its customers in connection with the production of handsets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

6. SEGMENT INFORMATION *(Continued)*

Segment revenue and results *(Continued)*

The following is an analysis of the Group's revenue and results by operating segments.

	2009 US$'000	2008 US$'000
Segment revenue (external sales)		
Asia	3,470,237	4,887,777
Europe	1,626,164	1,526,615
America	2,117,227	2,856,650
Total	7,213,628	9,271,042
Segment profit		
Asia	275,075	409,242
Europe	89,071	68,611
America	86,560	168,575
	450,706	646,428
Other income, gains and losses	93,276	128,471
General and administrative and research and development expenses	(440,852)	(543,105)
Impairment loss recognised for goodwill	(28,630)	–
Impairment loss recognised for investment in an associate	–	(3,250)
Interest expense	(4,505)	(31,811)
Share of profits of associates	1,440	671
Profit before tax	71,435	197,404

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

6. SEGMENT INFORMATION *(Continued)*

Segment revenue and results *(Continued)*

Majority of the Group's sales to Asian customers is attributed to the People's Republic of China ("PRC").

Segment profit represents the gross profit earned by each segment and the service income (included in other income) after deducting impairment recognised for certain property, plant and equipment. This is the measure reported to the Chief Executive Officer for the purposes of resource allocation and performance assessment.

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by operating segments:

	2009	2008
	US$'000	US$'000
ASSETS		
Segment assets		
Allocated		
Asia	**552,408**	528,116
Europe	**320,493**	357,398
America	**562,676**	826,929
Total	**1,435,577**	1,712,443
Unallocated		
Property, plant and equipment	**1,707,588**	1,941,318
Inventories	**585,319**	688,874
Cash and cash equivalents	**1,271,730**	777,985
Others	**539,014**	304,103
Corporate assets	**95,880**	103,013
Consolidated total assets	**5,635,108**	5,527,736

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

6. SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities *(Continued)*

	2009 US$'000	2008 US$'000
LIABILITIES		
Segment liabilities		
Allocated		
Asia	–	–
Europe	14,867	45,065
America	86,497	154,185
Total	101,364	199,250
Unallocated		
Trade and other payables	1,427,854	1,247,250
Others	73,558	67,602
Corporate liabilities	424,865	558,123
Consolidated total liabilities	2,027,641	2,072,225

For the purposes of monitoring segment performances and allocating resources between segments, trade receivables from Asia operation were allocated to Asia segment. Certain property, plant and equipment, inventories, trade and other receivables and cash and cash equivalents relate to Europe and America operations are allocated to Europe and America segments. Segment liabilities represent certain trade and other payables and provision for warranty relating to Europe and America operations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

6. SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities *(Continued)*

Other information

Amounts included in the measure of segment profit or loss or segment assets:

	Year ended 31 December 2009				
	Asia	Europe	America	Unallocated	Consolidated
	US$'000	US$'000	US$'000	US$'000	US$'000
Capital additions	–	22	8,582	131,605	140,209
Depreciation and amortisation	–	5,946	18,904	229,629	254,479
(Gain) loss on disposal of property, plant and equipment	–	(2,282)	724	3,793	2,235
(Write back of allowance) allowance for doubtful debts	(294)	8	(8)	–	(294)
(Reversal of) write down of inventories	–	(2,710)	525	1,638	(547)
Provision for warranty	14,216	222	4,926	–	19,364

	Year ended 31 December 2008				
	Asia	Europe	America	Unallocated	Consolidated
	US$'000	US$'000	US$'000	US$'000	US$'000
Capital additions	–	18,496	23,704	605,968	648,168
Depreciation and amortisation	–	13,618	19,594	201,933	235,145
(Gain) loss on disposal of property, plant and equipment	–	(2,567)	3,455	2,737	3,625
Write back of allowance for doubtful debts	(143)	(13)	(310)	–	(466)
Write down (reversal of write down) of inventories	–	10,515	6,889	(908)	16,496
Provision for warranty	31,509	5,293	5,191	–	41,993

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

6. SEGMENT INFORMATION *(Continued)*

Geographical information

The Group's operations are located in the PRC (country of domicile), United States of America ("USA"), United Mexican States ("Mexico") and other countries.

The Group's revenue from external customers and information about its non-current assets by geographical location of the assets are detailed below:

	Revenue from external customers		Non-current assets	
	2009	2008	**2009**	2008
	US$'000	US$'000	**US$'000**	US$'000
PRC (country of domicile)	**5,135,471**	5,949,773	**1,679,983**	1,927,084
USA	**1,127,690**	804,988	**4,029**	3,199
Mexico	**208,279**	1,076,189	**31,451**	59,110
Other countries	**742,188**	1,440,092	**394,499**	394,305
	7,213,628	9,271,042	**2,109,962**	2,383,698

Note: Non-current assets excluded financial instruments and deferred tax assets.

Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	2009	2008
	US$'000	US$'000
Customer A	**2,071,621**	3,966,344
Customer B	**1,804,701**	2,004,102
Customer C	**1,759,567**	2,445,988

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

7. OTHER INCOME, GAINS AND LOSSES

	2009 US$'000	2008 US$'000
An analysis of the Group's other income, gains and losses is as follows:		
Interest income from bank	14,088	33,570
Service and subcontracting income	75,633	72,738
Sales of materials and scraps	46,779	37,344
Repair and modifications of moldings	26,132	37,416
Net foreign exchange (loss) gain	(7,954)	12,977
Gain on disposal of subsidiaries	2,397	–
Government subsidies (note)	5,607	6,657
Rental income	5,529	–
Increase in fair value of investments held for trading	–	583
Impairment loss recognised for available-for-sale investments	(3,356)	–
Loss on disposal of property, plant and equipment	(2,235)	(3,625)
Others	6,289	2,960
	168,909	200,620

Note: This mainly represented subsidies granted for the Group's operations in the PRC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

8. PROFIT BEFORE TAX

	2009 US$'000	2008 US$'000
Profit before tax has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	247,781	232,168
Depreciation of investment properties	3,623	–
Amortisation of prepaid lease payments (included in general and administrative expense)	3,075	2,977
Total depreciation and amortisation	254,479	235,145
Auditor's remuneration	1,242	1,395
Cost of inventories recognised as expense	6,766,449	8,570,063
Provision for warranty	19,364	41,993
Write back of allowance for doubtful debts, net	(294)	(466)
(Reversal of) write down of inventories (included in cost of inventories recognised as expense)	(547)	16,496
Staff costs		
Directors' remuneration	1,313	1,434
Retirement benefit scheme contributions (excluding directors)	28,416	32,430
Equity-settled share-based payments	32,198	55,724
Cash-settled share-based payments	190	152
Other staff costs	422,964	582,456
	485,081	672,196

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

9. DIRECTORS' REMUNERATION

The emoluments paid or payable to each of the ten (2008: ten) directors were as follows:

2009	Fees US$'000	Other emoluments Basic salaries and allowances US$'000	Other emoluments Retirement benefit scheme contributions US$'000	Total 2009 US$'000
Chin Wai Leung, Samuel	–	1,200	–	1,200
Chang Ban Ja, Jimmy	–	–	–	–
Gou Hsiao Ling	–	–	–	–
Lee Jin Ming	–	–	–	–
Lu Fang Ming	–	–	–	–
Lau Siu Ki	23	8	–	31
Daniel Joseph Mehan	23	–	–	23
Chen Fung Ming	23	–	–	23
Chih Yu Yang (appointed on 28 August 2009)	–	36	–	36
Dai Feng Shuh (resigned on 28 August 2009)	–	–	–	–
	69	1,244	–	1,313

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

9. DIRECTORS' REMUNERATION *(Continued)*

2008	Fees	Other emoluments: Basic salaries and allowances	Other emoluments: Retirement benefit scheme contributions	Total 2008
	US$'000	US$'000	US$'000	US$'000
Chin Wai Leung, Samuel	–	1,200	–	1,200
Dai Feng Shuh	–	157	–	157
Chang Ban Ja, Jimmy	–	–	–	–
Gou Hsiao Ling	–	–	–	–
Lee Jin Ming	–	–	–	–
Lu Fang Ming	–	–	–	–
Lau Siu Ki	23	8	–	31
Daniel Joseph Mehan	23	–	–	23
Mao Yu Lang	19	–	–	19
Chen Fung Ming	4	–	–	4
	69	1,365	–	1,434

10. EMPLOYEES' EMOLUMENTS

The aggregate emoluments of the five highest paid individuals included one (2008: one) executive director of the Company, whose emoluments are included in note 9 above. The emoluments of the remaining four (2008: four) individuals, one of whom was appointed as executive director during the year, were as follows:

	2009	2008
	US$'000	US$'000
Salaries and other benefits	1,255	1,086
Performance-related incentive payments	567	1,321
	1,822	2,407

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

10. EMPLOYEES' EMOLUMENTS *(Continued)*

Their emoluments were within the following bands:

	Number of employees	
	2009	2008
HK$2,500,001 to HK$3,000,000	**1**	–
HK$3,000,001 to HK$3,500,000	**1**	–
HK$3,500,001 to HK$4,000,000	**1**	–
HK$4,000,001 to HK$4,500,000	**1**	2
HK$4,500,001 to HK$5,000,000	**–**	1
HK$5,000,001 to HK$5,500,000	**–**	1
	4	4

11. INCOME TAX EXPENSE

	2009	2008
	US$'000	US$'000
Current tax	**33,885**	64,272
Under (over) provision in prior years	**15,971**	(2,060)
	49,856	62,212
Deferred tax (note 20)		
Current year	**(12,905)**	14,084
Change in tax rates	**(5,138)**	(831)
	(18,043)	13,253
	31,813	75,465

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in nor is derived from Hong Kong.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

11. INCOME TAX EXPENSE *(Continued)*

Tax charge mainly consists of income tax in the PRC attributable to the assessable profits of the Company's subsidiaries established in the PRC. Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of certain PRC subsidiaries increase from 18% to 25% progressively over 5 years from 1 January 2008 onwards. The applicable tax rate for current year was 20% (2008: 18%).

The Company's subsidiary, Foxconn Precision Component (Beijing) Co., Ltd. ("Foxconn Beijing"), has previously applied the concessionary tax rate of 18% according to the circular on the Implementation of Transitional Preferential Policies for Enterprise Income Tax by Guo Fa [2007] No. 39. Foxconn Beijing received a tax notification (開國稅所通 [2009] 271號) on 18 May 2009 from the State Administration of Taxation which required Foxconn Beijing to apply the standard tax rate of 25% with effect from 1 January 2008. Foxconn Beijing was required to pay the tax undercharged in 2008 according to Guo Shui Han [2009] No. 203 announced on 22 April 2009. The tax expense undercharged for 2008 of approximately US$18,353,000 (RMB125,367,000) was charged to profit or loss in current year.

During the year, certain subsidiaries of the Company are entitled to exemptions from income tax for the two years commencing from their first profit-making year of operation and thereafter, entitled to a 50% relief from income tax for the next three years. The concessionary rate enjoyed by the subsidiaries will expire in 1 January 2014.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

11. INCOME TAX EXPENSE *(Continued)*

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

	2009 US$'000	2008 US$'000
Profit before tax	71,435	197,404
Tax at the PRC income tax rate of 20% (2008: 18%) for the year *(note a)*	14,287	35,533
Effect of different tax rates of subsidiaries	340	299
Effect of income taxed at concessionary rate	(34,517)	(15,694)
Tax effect of expenses not deductible for tax purpose	18,136	18,812
Tax effect of income not taxable for tax purpose	(3,691)	(2,570)
Tax effect of tax losses/deductible temporary differences not recognised	26,713	60,281
Tax effect of income tax credits granted to PRC subsidiaries on acquisition of certain qualified equipment *(note b)*	–	(6,775)
Tax refund for reinvestment in PRC subsidiaries	–	(11,409)
Tax effect of share of profits of associates	(288)	(121)
Tax effect of a change in tax rates	(5,138)	(831)
Under (over) provision in prior years	15,971	(2,060)
Tax expense for the year	31,813	75,465

Notes:

(a) The domestic income tax rate of 20% (2008: 18%) represents the PRC Enterprise Income Tax rate of which the Group's operations are substantially based.

(b) 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, and are accounted for, as deduction from current income tax expenses when relevant conditions are fulfilled and tax approval is obtained from the tax bureau. No such acquisition was noted during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

12. DIVIDEND

No dividend was paid or proposed during 2009 (2008: Nil), nor has any dividend been proposed since the end of the reporting period.

13. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	2009	2008
	US$'000	US$'000
Earnings		
Earnings for the purposes of basic and diluted earnings per share (profit for the year attributable to owners of the Company)	**38,587**	121,115

	2009	2008
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**7,066,326,311**	7,058,668,449
Effect of dilutive potential ordinary shares:		
Share options	**–**	63,115,854
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**7,066,326,311**	7,121,784,303

Note: The share options outstanding in the current period do not have a dilutive effect on earnings per share as the average market price of the shares for the year ended 31 December 2009 was lower than the exercise price of the share options.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

14. 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 2008	406,377	1,231,168	132,183	252,067	2,021,795
Exchange adjustments	(4,553)	21,176	(3,440)	658	13,841
Additions	53,506	292,139	32,358	270,165	648,168
Disposals	(736)	(78,767)	(4,610)	–	(84,113)
Transfers	200,830	20,144	3,786	(224,760)	–
Transfer to prepaid lease payments	(5,906)	–	–	–	(5,906)
At 31 December 2008	649,518	1,485,860	160,277	298,130	2,593,785
Exchange adjustments	10,203	21,186	3,274	414	35,077
Additions	17,167	66,784	3,414	52,537	139,902
Disposals	(4,242)	(104,914)	(5,130)	–	(114,286)
Disposal of subsidiaries	(1,961)	(16,227)	(438)	(42,835)	(61,461)
Transfers	165,569	47,055	(4,918)	(207,706)	–
Transfer to investment properties	(48,239)	–	–	–	(48,239)
At 31 December 2009	788,015	1,499,744	156,479	100,540	2,544,778
DEPRECIATION AND IMPAIRMENT					
At 1 January 2008	20,647	242,518	45,871	–	309,036
Exchange adjustments	(4,515)	(4,507)	(2,087)	–	(11,109)
Charge for the year	26,078	181,519	24,571	–	232,168
Eliminated on disposals	(83)	(57,088)	(4,119)	–	(61,290)
Impairment loss recognised in profit or loss	26,912	24,139	1,191	–	52,242
At 31 December 2008	69,039	386,581	65,427	–	521,047
Exchange adjustments	2,322	9,401	2,258	–	13,981
Charge for the year	36,637	190,305	20,839	–	247,781
Eliminated on disposals	(1,639)	(80,055)	(3,450)	–	(85,144)
Eliminated on disposal of subsidiaries	(720)	(2,752)	(96)	–	(3,568)
Transfers	95	3	(98)	–	–
Transfer to investment properties	(6,593)	–	–	–	(6,593)
Impairment loss recognised in profit or loss	165	33,924	–	–	34,089
At 31 December 2009	99,306	537,407	84,880	–	721,593
CARRYING VALUES					
At 31 December 2009	688,709	962,337	71,599	100,540	1,823,185
At 31 December 2008	580,479	1,099,279	94,850	298,130	2,072,738

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

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

Included in the land and buildings are freehold land, located in Hungary, Brasil, Mexico, India and Taiwan, having an aggregate cost of approximately US$23,894,000 (2008: US$24,419,000). All Buildings are situated outside Hong Kong.

Certain property, plant and equipment are pledged to secure banking facilities granted to the Group at the end of the reporting period (see note 38).

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

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

At 31 December 2009, the Group's management appointed professional appraisers to perform appraisals on the Group's principal manufacturing assets for the purpose of determining if the assets have been impaired for those group of assets that have impairment indications and determined that a number of those assets were impaired. Impairment loss of US$165,000 and US$33,924,000 has been recognised in respect of land and buildings and plant and machinery respectively for the year. In 2008, impairment losses of US$26,912,000, US$24,139,000 and US$1,191,000 were recognised in respect of land and buildings, plant and machinery and fixtures and equipment respectively. The recoverable amounts of the relevant assets have been determined by the Group's management on the basis of fair value less costs to sell.

15. INVESTMENT PROPERTIES

	US$'000
COST	
Additions	307
Transferred from property, plant and equipment *(note 14)*	41,646
At 31 December 2009	41,953
DEPRECIATION AND IMPAIRMENT	
Provided for the year	3,623
At 31 December 2009	3,623
CARRYING VALUES	
At 31 December 2009	38,330

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

15. INVESTMENT PROPERTIES *(Continued)*

The fair value of the Group's investment properties at 31 December 2009 was US$49,229,000 (31 December 2008: nil). The fair value has been arrived at based on a valuation carried out by BMI Appraisals Limited, an independent valuer not connected with the Group. The valuation was determined by reference to recent market prices for similar properties in the same locations and conditions.

The above investment properties are depreciated using the straight-line method, after taking into account their estimated residual value, over 20 years.

The investment properties are situated on land outside Hong Kong with long lease.

16. PREPAID LEASE PAYMENTS

The amount represents land use rights in the PRC and India:

	2009 US$'000	2008 US$'000
Long lease	156,401	164,690
Medium-term lease	5,020	5,137
	161,421	169,827

17. AVAILABLE-FOR-SALE INVESTMENTS

	2009 US$'000	2008 US$'000
Overseas equity investment *(note a)*	1,519	3,801
Unlisted overseas equity investment *(note b)*	100	97
	1,619	3,898

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

17. AVAILABLE-FOR-SALE INVESTMENTS *(Continued)*

Notes:

(a) As at 31 December 2008, the investment was measured at the quoted price in the Taiwan OTC Market. On 20 June 2009, the shares were delisted from Taiwan OTC Market and the investment was subsequently measured at deemed cost less any impairment. As at 31 December 2009, the Group held 6.15% (2008: 8.9%) of the ordinary share capital of Advanced Optoelectronic Technology Inc.

(b) The above unlisted investments represent investment in unlisted equity securities issued by an private entity incorporated in Finland. It is measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that its fair value cannot be measured reliably.

18. INTERESTS IN ASSOCIATES

	2009	2008
	US$'000	US$'000
Cost of investments in associates, less impairment		
Listed in Taiwan	**34,614**	34,614
Unlisted	**9,599**	9,599
Share of post-acquisition profits and other comprehensive income, net of dividend received	**2,022**	(3,290)
	46,235	40,923
Fair value of listed investments	**55,947**	24,623

On 27 February 2008, the Group subscribed for 74,999 new ordinary shares in Diabell Co., Ltd. ("Diabell"), a private limited company established in the Republic of Korea ("Korea"), at a cash consideration equivalent to approximately US$12,849,000 in aggregate. Diabell is principally engaged in the business of designing, developing, manufacturing and selling hinges and window lens for handsets as well as connectors, switches, metal decoration, vibration motors and related products. The Group held 19.998% equity interest in Diabell as at 31 December 2008 and 2009, and in the opinion of the directors, the Group is able to exercise significant influence over Diabell because it has the power to appoint one out of five directors of that company. In 2008, an impairment loss of US$3,250,000 was recognised based on the Group's estimation of its share of the present value of the estimated future cash flows expected to be generated by Diabell.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

18. INTERESTS IN ASSOCIATES *(Continued)*

On 5 March 2008, the Group entered into another agreement to subscribe for 14,893,000 new ordinary shares in Ways Technical Corp., Ltd., a limited company established in Taiwan and its shares are traded on the Taiwan OTC Market, at a total consideration of approximately US$34,614,000. Ways Technical Corp., Ltd. is principally engaged in the business of providing special coating surface treatment services to branded handheld devices (such as handsets and GPS) manufacturers or ODM companies. The Group held 24.55% (2008: 23.86%) equity interests in Ways Technical Corp., Ltd. as at 31 December 2009.

The summarised financial information in respect of the Group's associates is set out below:

	2009 US$'000	2008 US$'000
Total assets	153,767	138,278
Total liabilities	(33,120)	(40,271)
Net assets	120,647	98,007
Group's share of net assets of associates	27,867	22,555
Revenue	107,286	145,571
Profit for the year	5,119	5,706
Other comprehensive income	12,879	18,614
Group's share of profits and other comprehensive income of associates for the year	5,313	(3,290)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

18. INTERESTS IN ASSOCIATES *(Continued)*

Included in the cost of investment in associates is goodwill of US$18,368,000 (2008: US$18,368,000) arising on the acquisition of associates as at 31 December 2009 and 2008. The movement of goodwill is set out as below:

	2009	2008
	US$'000	US$'000
COST		
At 1 January and 31 December	**21,618**	21,618
IMPAIRMENT		
At 1 January	**3,250**	–
Impairment loss recognised during the year	**–**	3,250
At 31 December	**3,250**	3,250
CARRYING VALUE		
At 31 December	**18,368**	18,368

19. GOODWILL

	2009	2008
	US$'000	US$'000
COST		
At 1 January and 31 December	**63,075**	63,075
IMPAIRMENT		
At 1 January	**–**	–
Impairment loss recognised during the year	**28,630**	–
At 31 December	**28,630**	–
CARRYING VALUES		
At 31 December	**34,445**	63,075

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

19. GOODWILL *(Continued)*

The amount represents goodwill arising on the acquisition of 76.34% interest in CMCS in 2005, goodwill has been allocated to one single cash generating unit, CMCS which operates in Asia. At the end of 2009, the Group appointed a professional valuer to perform an appraisal of the value-in-use of CMCS.

At 31 December 2009, the management of the Group assessed the recoverable amount of CMCS with reference to the value-in-use and determined that full year goodwill was impaired by US$28,630,000 (2008: nil). The main factors contributing to the impairment of the cash generating unit were due to the change in the business strategy of its customers which developed fewer projects and decline in gross profit margin.

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 13.17% (2008: 14.92%). Cash flows beyond the 5-year period has been extrapolated using a steady 2% (2008: 1%) 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.

20. DEFERRED TAXATION

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

	Allowances for inventories, trade and other receivables	Warranty provision	Accelerated tax depreciation	Tax losses	Deferred income	Others	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
At 1 January 2008	(4,856)	(6,520)	121	(2,556)	(5,517)	(2,559)	(21,887)
Charge (credit) to profit or loss for the year	(459)	3,642	(13)	2,237	945	7,732	14,084
Effect of change in tax rates	(191)	(81)	–	–	(564)	5	(831)
Exchange adjustments	(338)	(396)	(5)	(55)	(136)	(1,840)	(2,770)
At 31 December 2008	(5,844)	(3,355)	103	(374)	(5,272)	3,338	(11,404)
Charge (credit) to profit or loss for the year	(1,286)	2,172	(113)	(2,371)	(4,203)	(7,104)	(12,905)
Effect of change in tax rates	(2,343)	(1,555)	–	5	199	(1,444)	(5,138)
Exchange adjustments	(24)	(24)	(7)	(72)	(39)	18	(148)
At 31 December 2009	(9,497)	(2,762)	(17)	(2,812)	(9,315)	(5,192)	(29,595)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

20. DEFERRED TAXATION *(Continued)*

For the purposes of presentation in the consolidated statement of financial position, 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:

	2009	2008
	US$'000	US$'000
Deferred tax assets	**(33,016)**	(20,077)
Deferred tax liabilities	**3,421**	8,673
	(29,595)	(11,404)

At 31 December 2009, the Group has not recognised deductible temporary differences on allowances for inventories, trade and other receivables, warranty provision, deferred income and other accrued expenses of approximately US$134,370,000 (2008: US$111,632,000) as it is not probable that taxable profit will be available against which the deductible temporary difference can be utilised.

At the end of the reporting period, the Group has unused tax losses of US$430,873,000 (2008: US$310,138,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately US$11,411,000 (2008: US$1,498,000) of such losses. No deferred tax asset has been recognised in respect of the remaining US$419,462,000 (2008: US$308,640,000) tax losses 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 2014.

By reference to financial budgets, management believes that there will be sufficient future taxable 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 and other temporary differences.

Under the EIT Law, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. No liability has been recognised in respect of temporary differences associated with undistributed earnings of subsidiaries from 1 January 2008 onwards of approximately US$733,288,000 (2008: US$481,960,000) as at the end of the reporting period because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

21. INVENTORIES

	2009	2008
	US$'000	US$'000
Raw materials	**285,360**	375,501
Work-in-progress	**156,243**	173,009
Finished goods	**274,557**	294,353
	716,160	842,863

Inventories carried at net realisable value were as follows:

	2009	2008
	US$'000	US$'000
Raw materials	**42,569**	50,432
Work-in-progress	**6,532**	11,724
Finished goods	**19,657**	24,407
	68,758	86,563

22. INVESTMENTS HELD FOR TRADING

The amount represented investment in listed shares on the Taiwan Stock Exchange held for trading purpose. The fair values were determined based on the quoted market bid prices available on the Taiwan Stock Exchange. During the year ended 31 December 2009, the Group disposed of all those investments held for trading.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

23. TRADE AND OTHER RECEIVABLES

	2009 US$'000	2008 US$'000
Trade receivables	1,069,854	1,115,817
Less: allowance for doubtful debts	(956)	(1,233)
	1,068,898	1,114,584
Other taxes recoverables	297,410	289,409
Other receivables	46,513	34,645
Total trade and other receivables	1,412,821	1,438,638

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 end of the reporting period:

	2009 US$'000	2008 US$'000
0 – 90 days	1,057,062	1,108,015
91 – 180 days	6,767	5,586
181 – 360 days	3,727	386
Over 360 days	1,342	597
	1,068,898	1,114,584

As at the end of the reporting period, 99% (2008: 99%) of the Group's trade receivables are neither past due nor impaired, and they are mainly receivables from certain global handset manufacturers that the Group considers have good credit standing. The Group seeks to maintain strict control over the creditability of customers and its outstanding receivables. Before accepting any new customer, the Group assesses the potential customers' credit quality and defines credit limits by customers. The creditability of customers is reviewed regularly.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

23. TRADE AND OTHER RECEIVABLES *(Continued)*

As at 31 December 2009, trade receivables with a carrying amount of approximately US$11,836,000 (2008: US$6,569,000) that were past due but not impaired related to a number of independent customers that have a good track record with the Group. Based on past collection history, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

Aging of trade receivables which are past due but not impaired is as follows:

	2009	2008
	US$'000	US$'000
91 – 180 days	**6,767**	5,586
181 – 360 days	**3,727**	386
Over 360 days	**1,342**	597
	11,836	6,569

Movement in the allowance for doubtful debts:

	2009	2008
	US$'000	US$'000
Balance at beginning of the year	**1,233**	1,643
Impairment losses recognised on receivables	**214**	524
Amounts recovered during the year	**(508)**	(990)
Exchange adjustments	**17**	56
Balance at end of the year	**956**	1,233

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

24. TRADE AND OTHER PAYABLES

	2009	2008
	US$'000	US$'000
Trade payables	1,162,781	1,008,666
Accruals and other payables	359,968	426,618
	1,522,749	1,435,284

The following is an aged analysis of trade payables at the end of the reporting period:

	2009	2008
	US$'000	US$'000
0 – 90 days	1,152,835	961,841
91 – 180 days	2,888	34,229
181 – 360 days	1,854	6,296
Over 360 days	5,204	6,300
	1,162,781	1,008,666

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

25. BANK BORROWINGS

	2009 US$'000	2008 US$'000
Proceeds from bills receivables discounted with recourse	40,348	–
Bank loans	322,291	477,932
	362,639	477,932
Analysis of bank borrowings by currency:		
US$	322,291	335,829
RMB	40,348	–
Japanese Yen	–	52,103
	362,639	387,932

The bank borrowings as at 31 December 2009 are unsecured, obtained with original maturity of three to six months and carry at fixed interest rate ranging from 0.35% to 1.58% (2008: 1.37% to 5.32%) per annum. The weighted average effective interest rate on the bank borrowings is 0.62% per annum (2008: 3.21% per annum).

During the year ended 31 December 2009, the Group factored intercompany bills receivables of US$29,875,000 (2008: nil) arising from intercompany transactions to banks with full recourse.

During the year ended 31 December 2009, the interest expense of US$4,505,000 (2008: US$31,811,000) represented the interest on bank borrowings wholly repayable within five years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

26. SHARE CAPITAL

	Number of shares	Amount
		US$'000
Ordinary shares of US$0.04 each, authorised:		
Balance at 31 December 2008 and 31 December 2009	20,000,000,000	800,000
Ordinary shares of US$0.04 each, issued and fully paid:		
Balance at 1 January 2008	7,052,459,250	282,098
Exercise of share options *(note 37(a))*	8,998,745	360
Balance at 31 December 2008	7,061,457,995	282,458
Exercise of share options *(note 37(a))*	12,268,150	491
Issue pursuant to the Share Scheme *(note 37(c))*	26,161,489	1,046
Balance at 31 December 2009	7,099,887,634	283,995

Note: The new shares issued in both years rank pari passu with the existing shares in all respects.

27. RESERVES

The Group's special reserve represents the difference between the paid-in capital of the subsidiaries acquired pursuant to group reorganisation in 2004 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 and Taiwan. As required by the laws in the PRC and Taiwan, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

28. DERIVATIVES

Currency derivatives

The Group utilises currency derivatives to hedge significant future transactions and cash flows. The Group utilises a variety of forward foreign exchange contracts to manage its exchange rate exposures. The instruments adopted are primarily to hedge the currencies used in the Group's principal markets.

At the end of the reporting period, total notional amount of outstanding forward foreign exchange contracts that the Group has committed are as below.

	2009	2008
	US$'000	US$'000
Forward foreign exchange contracts	**384,975**	209,711

As at 31 December 2009, the fair value of the Group's currency derivatives is estimated to be approximately US$999,000 liabilities (2008: US$903,000 assets), based on the difference between the market forward rate at the end of the reporting period for the remaining duration of the outstanding contracts and their contracted forward rates and discounted using an appropriate discount rate to take into account the time value of money, and is included as other payables (2008: other receivables) at the end of the reporting period. The contracts mainly related to buying of Japanese Yen and US$ with maturities in the first quarter of 2010.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

29. DISPOSAL OF SUBSIDIARIES

(a) On 2 December 2009, the Group disposed of its entire interest in a subsidiary, Foxconn Precision Electronics (Yantai) Co., Ltd. ("FYT") to Grand Deluxe Limited, which is a wholly-owned subsidiary of Hon Hai, the Company's ultimate holding company (the "FYT Disposal"). The net assets of FYT at the date of disposal were as follows:

	US$'000
NET ASSETS DISPOSED OF:	
Property, plant and equipment	57,869
Prepaid lease payments	6,957
Trade and other receivables	16,048
Inventories	5,210
Bank balances and cash	2,539
Trade and other payables	(57,812)
Provision	(407)
	30,404
Gain on disposal	2,383
Total consideration	32,787
Satisfied by:	
Cash	32,787
Net cash inflow arising on disposal:	
Cash consideration	32,787
Bank balances and cash disposed of	(2,539)
	30,248

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

29. DISPOSAL OF SUBSIDIARIES *(Continued)*

(b) On 14 December 2009, the Group disposed of its entire interest in a subsidiary, Shenzhen Fuxuntong Trading Co., Ltd. ("FXT") to Hon Fu Jin Precision Industry (Shen Zhen) Co., Ltd. ("HFJ"), which is a wholly-owned subsidiary of Hon Hai, the Company's ultimate holding company (the "FXT Disposal"). The net assets of FXT at the date of disposal were as follows:

	US$'000
NET ASSETS DISPOSED OF:	
Property, plant and equipment	24
Trade and other receivables	31
Inventories	90
Bank balances and cash	671
Trade and other payables	(97)
	719
Gain on disposal	14
Total consideration	733
Satisfied by:	
Cash	733
Net cash inflow arising on disposal:	
Cash consideration	733
Bank balances and cash disposed of	(671)
	62

The net proceeds on disposal of FYT and FXT was US$30,310,000.

30. BANK DEPOSITS AND BANK BALANCES AND CASH

Bank deposits carry prevailing market interest rate of 2.78% (2008: 4.05%) per annum on average, with original maturity of over three months.

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 1.37% (2008: 0.86%) per annum on average.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

31. PROVISION

	2009 US$'000	2008 US$'000
At 1 January	43,290	77,961
Exchange adjustments	(13)	2,029
Provision for the year	19,364	41,993
Utilisation of provision	(38,701)	(78,693)
Eliminated on disposal of a subsidiary	(407)	–
At 31 December	23,533	43,290

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

32. DEFERRED INCOME

	2009 US$'000	2008 US$'000
Government subsidies	52,285	34,456
Sale and leaseback transaction	5,058	7,049
	57,343	41,505

Government subsidies granted to the Company's subsidiaries in the PRC are released to income over the useful lives of the related depreciable assets.

In May 2007, the Group entered into a sale and leaseback agreement for its property in Finland for proceeds of approximately US$24,202,000. The leaseback is classified as an operating lease with a term of 5 years. An amount of US$9,801,000, representing the excess of the sale price over fair value of the building, is deferred and amortised over the period for which the building is expected to be used.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

33. CAPITAL COMMITMENTS

	2009	2008
	US$'000	US$'000
Commitments for the acquisition of property, plant and equipment contracted but not provided for	**76,526**	108,483

34. OPERATING LEASE ARRANGEMENTS

The Group as lessee

	2009	2008
	US$'000	US$'000
Minimum lease payments under operating leases in respect of premises recognised for the year	**17,327**	21,444

At the end of the reporting period, the Group had outstanding commitments under non-cancellable operating leases in respect of premises, which fall due as follows:

	2009	2008
	US$'000	US$'000
Within one year	**9,218**	14,165
In the second to fifth years inclusive	**7,431**	12,902
Over five years	**1,134**	1,363
	17,783	28,430

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

The Group as lessor

At the end of the reporting period, the investment properties are leased to certain related parties of the Group and had not contracted with tenants for the future minimum lease payments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

35. 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 and associates of Hon Hai other than members of the Group:

	2009	2008
	US$'000	US$'000
Hon Hai		
Sales of goods	**382**	28
Purchase of goods	**25,573**	58,030
Purchase of property, plant and equipment	**2,173**	3,710
Sales of property, plant and equipment	**2,076**	3,151
Subcontracting income	**9,650**	1,673
Consolidated services and subcontracting expense	**1,628**	867
General service income	**469**	5,152
General service expense	**–**	49
Subsidiaries of Hon Hai		
Sales of goods	**48,664**	51,903
Purchase of goods	**117,412**	221,405
Purchase of property, plant and equipment	**2,767**	6,041
Sales of property, plant and equipment	**23,744**	14,702
Lease income	**58**	–
Lease expense	**6,638**	7,364
Subcontracting income	**7,831**	12,976
Consolidated services and subcontracting expense	**34,657**	33,130
General service income	**2,025**	2,498
General service expense	**34,622**	42,497
Associates of Hon Hai		
Sales of goods	**50,756**	2,634
Purchase of goods	**163,288**	233,428
Purchase of property, plant and equipment	**1,839**	4,453
Sales of property, plant and equipment	**2,887**	391
Lease income	**2,408**	2,138
Lease expense	**53**	1,117
Subcontracting income	**3,342**	4,795
Consolidated services and subcontracting expense	**3,214**	1,212
General service income	**3,497**	25
General service expense	**9,372**	10,022

In addition to the above, the Group also disposed of its subsidiaries to the wholly-owned subsidiaries of Hon Hai during the year *(see note 29)*.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

35. RELATED PARTY TRANSACTIONS *(Continued)*

During the year ended 31 December 2008, Shenzhen Futaihong Precision Industrial Co., Ltd. ("FTH", a wholly-owned subsidiary of the Company), HFJ (a wholly-owned subsidiary of Hon Hai) and Shenzhen Futaihong Guang Ming Property Co., Ltd. ("GM Property", a wholly-owned subsidiary of FTH) entered into an agreement on 23 April 2008, pursuant to which (i) FTH has agreed to subscribe for newly-issued equity interests in GM Property by investing in GM Property land use right valued at approximately RMB444,852,000 (approximately US$63,366,000) as of 26 March 2008, and (ii) HFJ has agreed to subscribe for newly-issued equity interests in GM Property by cash of RMB190,000,000 (approximately US$27,689,000). Upon completion of the transaction, FTH and HFJ shall own 70.12% and 29.88% of the enlarged capital of GM Property, respectively. As at 31 December 2008, the land use right has been contributed by FTH, and HFJ has paid RMB127,000,000 (approximately US$18,508,000) and the remaining RMB63,000,000 (approximately US$9,181,000) shall be subscribed for on or before 12 May 2010 pursuant to the agreement.

(b) At the end of the reporting period, the Group has the following balances due from/to related parties included in:

	2009 US$'000	2008 US$'000
Trade receivables:		
Hon Hai	1,788	4,777
Subsidiaries of Hon Hai	27,765	25,613
Associates of Hon Hai	21,262	5,499
	50,815	35,889
Other receivables:		
Hon Hai	18	10
Subsidiaries of Hon Hai	1,407	344
Associates of Hon Hai	2,134	349
	3,559	703
	54,374	36,592

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

35. RELATED PARTY TRANSACTIONS *(Continued)*

	2009 US$'000	2008 US$'000
Trade payables:		
Hon Hai	7,127	7,065
Subsidiaries of Hon Hai	56,582	58,802
Associates of Hon Hai	61,965	65,606
	125,674	131,473
Other payables:		
Hon Hai	150	95
Subsidiaries of Hon Hai	1,910	2,205
Associates of Hon Hai	1,199	3,993
	3,259	6,293
	128,933	137,766

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

(c) Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2009 US$'000	2008 US$'000
Short-term benefits	3,240	2,603
Share-based payments	1,341	1,714
	4,581	4,317

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

36. 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.

Certain subsidiaries of the Company operate defined benefit plans in Taiwan and Korea. Under the schemes, the employees are entitled to retirement benefits on attainment of a retirement age ranging from 55 to 60. The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 31 December 2009 by Greatfine Wealth Management Consulting Inc. and Hewitt Associates LLC. respectively. The present values 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:

	2009	2008
Discount rate	**2.00% – 6.10%**	2.25% – 7.70%
Expected return on plan assets	**2.00% – 5.30%**	2.25% – 4.20%
Expected rate of salary increases	**2.00% – 5.00%**	2.00% – 5.00%
Future pension increases	**–**	–

The actuarial valuation showed that the market value of plan assets was US$6,285,000 (2008: US$4,444,000) and that the actuarial value of these assets represented 98% (2008: 94%) of the benefits that had accrued to members.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

36. RETIREMENT BENEFITS PLANS *(Continued)*

Amounts recognised in profit or loss in respect of the defined benefit plans are as follows:

	2009	2008
	US$'000	US$'000
Current service cost	**890**	677
Interest cost	**147**	146
Expected return on plan assets	**(126)**	(97)
Net actuarial (gains) losses	**(80)**	–
Past service cost	**–**	8
	831	734

Of the charge for the year, US$831,000 (2008: US$734,000) has been included in administrative expenses.

The actual return on plan assets was US$170,000 (2008: US$40,000) as at 31 December 2009.

The amount included in the consolidated statement of financial position arising from the Group's obligation in respect of its defined benefit retirement plans is as follows:

	2009	2008
	US$'000	US$'000
Present value of funded defined benefit obligations	**6,723**	4,715
Fair value of plan assets	**(6,285)**	(4,444)
Deficit	**438**	271
Net actuarial gains and losses not recognised	**241**	1,436
Past service cost not recognised	**–**	–
Net liability arising from defined benefit obligations (included in other payables)	**679**	1,707

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

37. SHARE-BASED PAYMENT TRANSACTIONS

(a) Equity-settled share option scheme

On 12 January 2005, the Company adopted the Option Scheme for the primary purpose of attracting skilled and experienced personnel and incentivising them to remain with the Group. Under the Option Scheme, the Board 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 third party service providers for services provided by them to the Group. The Option Scheme will expire on 3 February 2015.

Under the Option Scheme, the directors of the Company may at their discretion grant options to any eligible person to subscribe for shares in the Company. The directors may at their discretion determine the specific exercise period which should expire in any event no later than ten years from the effective date of the Option Scheme.

The total number of shares which may initially be issued upon the exercise of all options to be granted under the Option Scheme and any other share option scheme(s) adopted by the Company must not in aggregate exceed 10% of the total number of issued shares of the Company as of the date of listing its shares on the Stock Exchange, i.e. must not exceed 683,940,002 shares. Subject to the approval of the shareholders of the Company in general meeting, the limit may be refreshed to 10% of the total number of shares in issue as at the date of approval of the refreshed limit. Notwithstanding the foregoing, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Option Scheme and any other share option scheme(s) of the Company must not in aggregate exceed 30% of the number of issued shares of the Company from time to time. Pursuant to an ordinary resolution passed at the Company's annual general meeting held on 8 June 2006, the 10% scheme limit was refreshed to 695,805,602 shares, representing 10% of the number of issued shares of the Company as at the date of passing of the resolution. The maximum number of shares of the Company in respect of which options granted and to be granted to each eligible person under the Option Scheme of the Company in any 12-month period up to the date of the latest grant shall not exceed 1% of the total number of issued shares of the Company from time to time. The maximum number of shares issued and to be issued upon exercise of options granted and to be granted (including options exercised, cancelled and outstanding) to a substantial shareholder or an independent non-executive director, or their respective associates, in the 12-month period up to and including the date of such grant in aggregate over 0.10% of total number of issued shares of the Company from time to time and have an aggregate value exceeding HK$5,000,000 such further grant of options will be required to be approved by the shareholders of the Company in general meeting.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

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

(a) Equity-settled share option scheme *(Continued)*

Options granted must be taken up within 30 days after the date of offer, upon payment of HK$1.0 per an 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 at the time of grant. The exercise price is determined by the Board 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.

Details of specific categories of options are as follows:

Option	Date of grant	Number of options granted	Vesting period	Exercise price HK$	Exercise period	Estimated fair value of the options granted on the grant date US$	Closing price immediately before the date of grant HK$
2005	25 July 2005	435,599,000	Ranging from one to six years up to July 2011	6.06	From vesting date to 31 December 2011	104,038,000	5.75
2007A	12 September 2007	2,400,000	Ranging from one to six years up to July 2013	20.63	From vesting date to 31 December 2013	2,054,000	20.25
2007B	12 September 2007	300,000	Ranging from one to three years up to September 2010	20.63	From vesting date to 31 December 2010	212,000	20.25

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

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

(a) Equity-settled share option scheme *(Continued)*

The following table discloses movements of the Company's share options held by employees during the year ended 31 December 2009:

Option type	Outstanding at 1.1.2009	Granted during year	Exercised during year	Lapsed during year	Cancelled during the year	Expired during the year	Outstanding at 31.12.2009
2005	305,700,192	–	(12,268,150)	(30,881,175)	(119,854)	–	262,431,013
2007A	2,400,000	–	–	–	–	–	2,400,000
2007B	–	–	–	–	–	–	–
	308,100,192	–	(12,268,150)	(30,881,175)	(119,854)	–	264,831,013

The following table discloses movements of the Company's share options held by employees during the year ended 31 December 2008:

Option type	Outstanding at 1.1.2008	Granted during year	Exercised during year	Lapsed during year	Cancelled during the year	Expired during the year	Outstanding at 31.12.2008
2005	332,375,767	–	(8,998,745)	(13,298,390)	(4,378,440)	–	305,700,192
2007A	2,400,000	–	–	–	–	–	2,400,000
2007B	300,000	–	–	(300,000)	–	–	–
	335,075,767	–	(8,998,745)	(13,598,390)	(4,378,440)	–	308,100,192

150,281,253 (2008: 113,306,262) share options are exercisable as at 31 December 2009.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

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

(a) Equity-settled share option scheme *(Continued)*

In respect of the share options exercised during the year ended 31 December 2009, the weighted average share price at the dates of exercise is US$0.98 (equivalent to HK$7.61).

In respect of the share options exercised during the year ended 31 December 2008, the weighted average share price at the dates of exercise is US$1.45 (equivalent to HK$11.28).

The Group recognised total expense of US$4,964,000 (2008: US$15,001,000) for the year ended 31 December 2009 in relation to the share options granted by the Company.

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

	2005	2007A	2007B
Share price on date of grant	US$0.76 (equivalent to HK$5.95)	US$2.50 (equivalent to HK$19.46)	US$2.50 (equivalent to HK$19.46)
Exercise price	US$0.76 (equivalent to HK$6.06)	US$2.65 (equivalent to HK$20.63)	US$2.65 (equivalent to HK$20.63)
Expected volatility	30%	36%	36%
Expected life	Vesting period plus 1.5 years	Vesting period plus 1.5 years	Vesting period plus 1.5 years
Risk free rate	3.39%	3.92%	4.09%
Dividend yield	0%	0%	0%

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 for Option 2005 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, and expected volatility for Option 2007A and Option 2007B was determined by calculating the historical volatility of the Company's share price over past 12 months 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

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

(b) Cash-settled share-based payments

The Group issued to certain employees share appreciation rights ("SAR") at exercise prices ranging from HK$3.96 to HK$26.05 with vesting period ranging from one to three 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 31 December 2009, the Group has recorded liabilities of US$313,000 (2008: US$1,314,000) and recorded total expenses of US$190,000 (2008: US$152,000) for the year then ended. The fair value of the SARs is determined using the Black-Scholes pricing model with expected volatility of 76.51% (2008: 98.56%), risk free rate of 4.33% (2008: 4.33%) and dividend yield of 0% (2008: 0%).

(c) Other share-based payment plan

Pursuant to the Share Scheme adopted by the Company on 12 January 2005 and amended by shareholders' resolution and the board resolution dated 4 August 2006 and 29 October 2009 respectively, 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 any of its subsidiaries.

Pursuant to the approval of the Board on 29 December 2006, the Company offered 5,748,145 ordinary shares to certain employees pursuant to the Share Scheme, of which 3,010,427 ordinary shares were granted without lock-up periods, while the remaining shares were granted with lock-up periods ranging from one to three years from the grant date. No consideration is payable on the grant of the shares and the shares were subsequently issued on 2 February 2007.

Pursuant to the approval of the Board on 24 July 2007, the Company offered 502,090 ordinary shares to certain employees pursuant to the Share Scheme, of which 95,090 ordinary shares were granted without lock-up periods, 209,000 ordinary shares were granted with lock-up periods expired on 25 July 2007, while the remaining shares were granted with lock-up periods ranging from one to two years from the grant date. No consideration is payable on the grant of the shares and the shares were subsequent issued on 30 July 2007.

Pursuant to the approval of the Board on 28 December 2007, the Company further offered 20,459,322 ordinary shares to certain employees pursuant to the Share Scheme, of which 97,244 ordinary shares were granted without lock-up periods, while the remaining shares were granted with lock-up periods ranging from one to three years from the grant date. No consideration is payable on the grant of the shares and the awarded shares were purchased by trustee of the share scheme from the stock market in February and March 2008.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

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

(c) Other share-based payment plan *(Continued)*

Pursuant to the approval of the Board on 29 October 2009, the Company offered 26,161,489 ordinary shares to certain employees pursuant to the Share Scheme. The shares were granted without lock-up periods. No consideration is payable on the grant of the shares and the shares were subsequently issued on 9 November 2009. No ordinary shares were granted for the year ended 31 December 2008.

The Group recognised total expense of US$27,234,000 (2008: US$40,723,000) for the year ended 31 December 2009 in relation to the ordinary shares awarded by the Company under the Share Scheme.

38. PLEDGE OF ASSETS

At the end of the reporting period, a subsidiary of the Company has pledged its property, plant and equipment having a carrying value of approximately US$5,751,000 (2008: US$5,611,000) to secure general banking facilities granted to the Group.

39. PRINCIPAL SUBSIDIARIES

The Company has the following principal subsidiaries as at 31 December 2009 and 2008:

Name of subsidiary	Form of business structure	Place of incorporation/ establishment	Issued and paid-up share capital/ registered capital	Attributable equity interest held by the Company				Principal activities
				Directly		Indirectly		
				2009	2008	**2009**	2008	
CMCS	Limited company	Taiwan	NT$1,500,000,000	**–**	–	**76.332%**	76.332%	Design and manufacture of handsets
Eliteday Enterprises Limited	Limited company	British Virgin Islands ("BVI")	US$1	**–**	–	**100%**	100%	Trading of handsets
Extra Right Enterprises Limited	Limited company	BVI	US$1	**–**	–	**100%**	100%	Provision of services to group companies
FIH (HongKong) Limited	Limited company	Hong Kong	HK$1	**–**	–	**100%**	100%	Trading of handsets

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

39. PRINCIPAL SUBSIDIARIES *(Continued)*

Name of subsidiary	Form of business structure	Place of incorporation/ establishment	Issued and paid-up share capital/ registered capital	Attributable equity interest held by the Company				Principal activities
				Directly		Indirectly		
				2009	2008	**2009**	2008	
FIH Co., Ltd.	Limited company	Taiwan	NT$1,000,000	**100%**	100%	**-**	–	Provision of services to group companies
Foxconn DK ApS	Limited company	Denmark	DKK2,100,000	**-**	–	**100%**	100%	Research development and project management
FIH Europe Limited Liability Company	Limited company	Hungary	HUF2,000,000,000 (2008: HUF10,039,000,000)	**-**	–	**100%**	100%	Manufacture of handsets
Foxconn Mexico Precision Industry,ts Co. SA de CV.	Limited company	Mexico	MXN2,007,283,685 (2008: MXN3,007,283,685)	**-**	–	**100%**	100%	Manufacture of handsets
Foxconn Oy	Limited company	Finland	EUR1,558,800	**-**	–	**100%**	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$68,800,000	**-**	–	**100%**	100%	Manufacture of handsets
宏訊電子工業（杭州）有限公司 (Honxun Electrical Industry (Hangzhou) Co., Ltd.)	Wholly foreign owned enterprise	PRC	US$106,800,000	**-**	–	**100%**	100%	Manufacture of handsets
富士康精密電子（煙台）有限公司 (Foxconn Precision Electronics (Yan Tai) Co., Ltd.)	Wholly foreign owned enterprise	PRC	US$20,000,000	**-**	–	**-**	100%	Manufacture of handsets
S&B Industry Technologies Limited Partnership	Limited company	USA	US$7,218,280	**-**	–	**100%**	100%	Repair centre

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

39. PRINCIPAL SUBSIDIARIES *(Continued)*

Name of subsidiary	Form of business structure	Place of incorporation/ establishment	Issued and paid-up share capital/ registered capital	Attributable equity interest held by the Company Directly 2009	Directly 2008	Indirectly 2009	Indirectly 2008	Principal activities
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$178,520,000	–	–	**100%**	100%	Manufacture of handsets
Success World Holdings Limited	Limited company	Hong Kong	HK$388,525,000	**100%**	100%	–	–	Investment holding
Sutech Industry Inc.	Limited company	USA	US$10,000	–	–	**100%**	100%	Provision of logistics services to group companies
富士康（天津）精密工業有限公司 (Foxconn (Tianjin) Precision Industry Co., Ltd.)	Wholly foreign owned enterprise	PRC	US$52,800,000	–	–	**100%**	100%	Manufacture of handsets
Foxconn do Brasil Industria e Comercio de Eletronicos Ltda.	Limited company	Brasil	BRL$370,369,598 (2008: BRL$276,319,598)	–	–	**100%**	100%	Manufacture of handsets
Foxconn India Private Limited	Limited company	India	INR2,323,830,000	–	–	**100%**	100%	Manufacturing, import, export, distribution and assembly
富士康精密電子（太原）有限公司 (Foxconn Precision Electronics (Taiyuan) Co., Ltd.)	Wholly foreign owned enterprise	PRC	US$85,500,000	–	–	**100%**	100%	Manufacture of handsets
富泰京精密電子（北京）有限公司 (Futaijing Precision Electronics (Beijing) Co., Ltd.)	Wholly foreign owned enterprise	PRC	US$75,000,000	–	–	**100%**	100%	Manufacture of handsets

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

39. PRINCIPAL SUBSIDIARIES *(Continued)*

Name of subsidiary	Form of business structure	Place of incorporation/ establishment	Issued and paid-up share capital/ registered capital	Attributable equity interest held by the Company				Principal activities
				Directly		Indirectly		
				2009	2008	**2009**	2008	
富士康精密電子（廊坊）有限公司 (Foxconn Precision Electronics (Langfang) Co., Ltd.)	Wholly foreign owned enterprise	PRC	US$99,000,000	**-**	-	**100%**	100%	Manufacture of handsets
Foxconn Reynosa S.A. De C.V.	Limited company	Mexico	MXN50,000	**-**	-	**100%**	100%	Manufacture of handsets
FIH Technology Korea Ltd.	Limited company	Korea	KRW7,756,700,000 (2008: KRW51,700,000)	**-**	-	**100%**	100%	Research development and project management
KSB International Limited	Limited company	Korea	KRW50,000,000	**-**	-	**100%**	100%	Provision of logistics services to group companies

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

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

40. FINANCIAL INFORMATION OF THE COMPANY

Financial information of the Company at the end of the reporting period includes:

	2009 US$'000	2008 US$'000
ASSETS		
Investment in subsidiaries	1,080,718	886,611
Other receivables	46	2,813
Amounts due from subsidiaries	1,211,204	1,902,729
Bank balances and cash	14,964	34,333
	2,306,932	2,826,486
LIABILITIES		
Other payables	849	148,080
Amounts due to subsidiaries	637,765	1,009,588
	638,614	1,157,668
NET ASSETS	1,668,318	1,668,818
CAPITAL AND RESERVES		
Share capital	283,995	282,458
Share premium	721,156	686,913
Reserves	663,167	699,447
Total equity	1,668,318	1,668,818

Under the Company Law (Revised) Chapter 25 of the Cayman Islands, the share premium of the Company is available for distribution or paying dividends to shareholders subject to the provisions of its memorandum or articles of association and provided that immediately following the distribution of dividends, the Company is able to pay its debts as they fall due in the ordinary course of business. At the end of the reporting period, the Company's reserve available for distribution amounted to US$1,320,630,000 (2008: US$1,308,793,000), consisted of share premium of approximately US$721,156,000 (2008: US$686,913,000) and retained profits of approximately US$599,474,000 (2008: US$621,880,000).

FINANCIAL SUMMARY

	For the year ended 31 December				
	2005 (US$'million)	2006 (US$'million)	2007 (US$'million)	2008 (US$'million)	**2009 (US$'million)**
Results					
Turnover	6,364.50	10,381.24	10,732.32	9,271.04	**7,213.63**
Profit from operations	433.15	798.75	786.73	229.21	**73.55**
Interest expenses on bank borrowings	(13.90)	(13.29)	(31.19)	(31.81)	**(4.51)**
Gain on disposal of subsidiaries	–	–	–	–	**2.40**
Profit before tax	419.25	785.46	755.54	197.40	**71.44**
Income tax expense	(36.32)	(67.61)	(30.06)	(75.47)	**(31.81)**
Profit after tax and before minority interests	382.93	717.85	725.48	121.93	**39.63**
Minority interests	2.77	0.19	(4.06)	(0.82)	**(1.04)**
Net profit for the year	385.70	718.04	721.42	121.11	**38.59**

	As at 31 December				
	2005 (US$'million)	2006 (US$'million)	2007 (US$'million)	2008 (US$'million)	**2009 (US$'million)**
Assets and liabilities					
Total assets	3,158.55	4,502.41	6,706.22	5,527.74	**5,635.11**
Total liabilities	(1,631.53)	(2,121.41)	(3,381.05)	(2,072.23)	**(2,027.64)**
Minority interests	(12.05)	(12.02)	(16.18)	(34.18)	**(35.68)**
Capital and reserves	1,514.97	2,368.98	3,308.99	3,421.33	**3,571.79**

CORPORATE GOVERNANCE REPORT

The Company has complied with all the code provisions set out in the CCGP contained in Appendix 14 to the Listing Rules throughout the accounting year ended 31 December 2009 except for code provision A.2.1, which requires that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

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 in the Company. In light of the aftermath of financial tsunami the world has and could be facing and handset industry's fundamental changes, the Board considers that experienced leadership is a must. The present arrangement for Mr. Chin, the chairman, to hold the office of chief executive officer of the Company is not only instrumental to the continuation in implementation of business plan and formulation of business strategies, but also crucial to avoid unnecessary confusion or instability to customers worldwide. This is beneficial to the interests of the Company and its shareholders. However, in the spirit of corporate governance, the Board will continue to 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. The Company has also introduced a new executive director to the Board in 2009 and promoted a few new senior managers to higher positions with the view to accelerate the leadership transition and succession plan.

THE BOARD

The Board is responsible for the leadership and control of the Company and oversees the Group's overall businesses, strategic decisions and performance. The Board has delegated its powers to the management for the daily management and operations of the Group. In addition, the Board has also delegated its powers to the Board committees. The Board currently has two committees namely the remuneration committee and the audit committee, each of which discharges its functions and duties in accordance with the respective terms of reference with reference to the relevant provisions under the CCGP.

The Board currently consists of two executive directors, four non-executive directors and three independent non-executive directors.

Executive directors
Chin Wai Leung, Samuel *(Chairman and Chief Executive Officer)*
Dai Feng Shuh *(Chief Operating Officer)* (resigned on 28 August 2009)
Chih Yu Yang (appointed on 28 August 2009)

Non-executive directors
Chang Ban Ja, Jimmy
Gou Hsiao Ling
Lee Jin Ming
Lu Fang Ming

CORPORATE GOVERNANCE REPORT

Independent non-executive directors
Lau Siu Ki *(chairman of the remuneration committee and the audit committee)*
Daniel Joseph Mehan
Chen Fung Ming

During the year, seven Board meetings were held and the attendance of each director is shown below:

Name of director	Number of Board meetings attended in 2009
Chin Wai Leung, Samuel	7/7
Chih Yu Yang	3/4
Chang Ban Ja, Jimmy	4/7
Gou Hsiao Ling	6/7
Lee Jin Ming	6/7
Lu Fang Ming	6/7
Lau Siu Ki	7/7
Daniel Joseph Mehan	7/7
Chen Fung Ming	7/7
Dai Feng Shuh	3/4

The Board meets regularly and the Board meetings are held at least four times a year. At least fourteen days' notice is given to all directors and they can include matters for discussion in the agenda. An agenda and accompanying Board papers are sent to all directors at least three days before the intended date of a Board meeting. Every Board member is entitled to have access to Board papers and related materials and has access to the advice and services of the Company Secretary. They can also seek independent professional advice. The minutes books are kept by the Company Secretary. Draft and final versions of minutes of the Board meetings were sent to all directors for their comments and records respectively within a reasonable time after the meetings.

CHAIRMAN

The Chairman is responsible for leadership for the Board and for ensuring that directors receive adequate information in a timely manner and are briefed on issues arising at Board meetings.

APPOINTMENT, RE-ELECTION AND REMOVAL OF DIRECTORS

The Company entered into a letter of appointment with each of the non-executive directors for a term of three years commencing from 1 December 2007 (with the exception that the term of appointment for two of the non-executive directors commenced from 24 July 2007 and 1 November 2008 respectively) subject to re-election at each annual general meeting of the Company in accordance with article 112 of the Articles. All the directors of the Company are subject to retirement by rotation at least once every three years in accordance with such article 112.

CORPORATE GOVERNANCE REPORT

REMUNERATION COMMITTEE

The Company established a remuneration committee with written terms of reference by reference to the provisions of the CCGP.

The remuneration committee consists of one non-executive director and two independent non-executive directors. The members are:

Lau Siu Ki *(chairman)*
Lee Jin Ming
Daniel Joseph Mehan

The principal duties of the remuneration committee are to make recommendations to the Board on the policy and structure for the remuneration of the directors and senior management, and to consider and approve remuneration for the directors and senior management by reference to corporate goals and objectives. The committee shall meet at least once a year if necessary.

During the year, two remuneration committee meetings were held, in particular, to review and approve the remuneration of newly appointed director, and to review the share grant under the Share Scheme of the Company and make recommendation to the Board on the share grant. The attendance of each member of the remuneration committee is shown below:

Name of director	**Number of remuneration committee meetings attended in 2009**
Lau Siu Ki	2/2
Lee Jin Ming	2/2
Daniel Joseph Mehan	2/2

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE

The Company established an audit committee with written terms of reference by reference to the provisions of the CCGP.

The audit committee consists of one non-executive director and two independent non-executive directors. The members are:

Lau Siu Ki *(chairman)*
Lee Jin Ming
Daniel Joseph Mehan

The principal duties of the audit committee are to review and supervise the Group's financial reporting and accounting policies and practices as well as financial controls, internal control and risk management systems and provide advice and comments to the Board. It also makes recommendations on the appointment, re-appointment and removal of external auditors, and approves the remuneration and terms of engagement of the external auditors. It also reviews and monitors the external auditors' independence and objectivity as well as the effectiveness of the audit process.

During the year, four audit committee meetings were held, in particular, to review and discuss the auditing and financial reporting, and to review the unaudited interim financial report and the audited financial statements, and to discuss the nature and scope of the audit, and to discuss the internal controls of the Group. The attendance of each member of the audit committee is shown below:

Name of director	**Number of audit committee meetings attended in 2009**
Lau Siu Ki	4/4
Lee Jin Ming	4/4
Daniel Joseph Mehan	4/4

Full minutes of the meetings of the audit committee are kept by the Company Secretary. Draft and final versions of minutes of the audit committee were sent to all members of the committee for their comments and records respectively within a reasonable time after the meetings.

CORPORATE GOVERNANCE REPORT

NOMINATION OF DIRECTORS

The Company does not have a nomination committee. The Board is responsible for the appointment of its members and for considering appropriate candidates for directorship and for re-election by shareholders at annual general meetings.

The Board, in accordance with the Articles and through a meeting, considers qualification and experiences of candidates and requirements of the Listing Rules, nominates and recommends such candidates for directorship and re-election. During the year, one of the Board meetings was held for the purpose of, among other things, approval of the appointment of new director.

AUDITOR'S REMUNERATION

The responsibility of the auditor is to form an independent opinion, based on its audit, on those financial statements and to report its opinion solely to the Company, as a body, and for no other purpose.

During the year, US$1,138,000 paid to the Company's auditor, Deloitte Touche Tohmatsu for audit services and US$163,000 for other services.

DIRECTORS' RESPONSIBILITY FOR FINANCIAL STATEMENTS

The directors acknowledge their responsibility for preparing the financial statements of the Group and ensuring that the financial statements are in accordance with applicable statutory requirements and accounting standards.

ACCOUNTABILITY AND AUDIT

The Board is responsible for overseeing the preparation of financial statements of each financial period, which give a true and fair view of the financial position and operating results of the Group. In preparing the financial statements for the year ended 31 December 2009, the directors have selected suitable accounting policies and have applied them in a consistent manner, have made reasonable judgments and estimates, and have prepared the financial statements on a going-concern basis.

CORPORATE GOVERNANCE REPORT

The Board has overall responsibility for maintaining a sound and effective internal control system within the Group and sets appropriate policies so that objectives of the Group can be achieved and risks associated can be monitored and mitigated in an acceptable level. The internal control system is designed to provide reasonable, but not absolute, assurance on the effectiveness and efficiency of operations, reliability of financial reporting, safeguarding of assets and compliance with applicable laws and regulations. The audit committee in discharging their responsibility of evaluating the effectiveness of the Group's system of internal controls, as delegated by the Board, reviews the internal audit function which independently assesses and monitors the risks and internal controls of the Group over various operations and activities. The Group internal audit function has unrestricted access to the information that allows it to review all aspects of the internal controls and governance processes within the Group. This includes audits of financial, operational and compliance controls of all business and functional units. The audit committee reviews and approves the internal audit plan which is prepared by the Group internal audit function every year based on an assessment of the risk in each operating unit as well as its materiality in a Group context. Deficiencies identified are communicated to the management after each internal audit. The management is responsible for rectifying the deficiencies identified by these internal audits with corrective actions. Corrective actions are closely monitored by the management and the Group internal audit function. A summary of major findings is reported quarterly to the executive directors and the audit committee. Being a learning organization, lessons learned and best practices are disseminated and promoted within the Group.

The Code of Conduct guiding individual behavior within the Group is made available to employees by way of rules and principles. Besides, a "whistle blowing" mechanism is established to allow employees to anonymously report any improper activities and suspected fraud to the chief internal auditor who will carry out independent investigation for each reported case or refer to other relevant parties for further actions as appropriate.

Risk management is a central part of the Group's strategic management, and is the process whereby the Group methodically identifies and manages key risks to the achievement of the Group's overall objectives. The ownership begins at the top management of the organization and cascades down to business units and functional units risk management officers. The Group risk management function marshals the understanding of the potential upside and downside of all those factors which can affect the organisation by establishing an enterprise risk management system to proactively identify, analyse, control and monitor all types of risks associated with its business and operations. Risk assessments and reports will be reported to the senior management and the Group risk management committee on a regular basis. Senior management will then review the risk reports and assess the adequacy of action plans and devise control systems to manage these risks.

The enterprise risk management system covers strategic planning, technical, budgetary control, performance measurement, control over capital expenditure, investment, finance, quality, product safety and liability, legal, information technology and security, supply chain management, natural disaster, human resources management and industrial safety.

CORPORATE GOVERNANCE REPORT

The Board is of the view that the system of internal controls in place for the year under review is sound and is sufficient to safeguard the interests of shareholders, customers, creditors and employees.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules. Following specific enquiry made by the Company, all the directors of the Company have confirmed that they have complied with the required standards set out in the Model Code throughout the year ended 31 December 2009.

EFFECTIVE COMMUNICATION

At the 2009 annual general meeting, separate resolutions were proposed for shareholders' consideration and approval in respect of each of the key matters, including the re-election of directors, which required approval by the shareholders.

The chairman of the Board and the chairman of the audit committee and the remuneration committee attended the 2009 annual general meeting to answer questions from the shareholders at the meeting.

VOTING BY POLL

At the 2009 annual general meeting, the procedures for conducting a poll was explained by the chairman of the Board at the meeting.