Foxconn International Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2038

annual report 2008

08

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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

CHIN Wai Leung, Samuel
(Chairman and Chief Executive Officer)
DAI Feng Shuh
(Chief Operating Officer)

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 America, N.A.
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.
Standard Chartered Bank
Taipei Fubon Bank
Taishin International Bank

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 2008 will be long remembered for the successes of the Beijing Olympics and a certain Olympian winning a record breaking 8 gold medals. The year will also be remembered for the credit crisis and spending excesses that have literally destroyed famous business institutions and shaken the confidence of consumers around the world. As with many other industries, the handset industry was impacted, and Foxconn International Holdings Limited ("FIH") was not immune to this economic uncertainty. The year 2008 was a difficult year.

On behalf of our global management team, I present to you the operating results of FIH for the financial year ended 31 December 2008.

Revenue for the year reached US$9,271 million, which represents a decrease of US$1,461 million, or 13.61% over the prior year revenue of US$10,732 million. Net profit for the year was US$121 million, representing a decrease of 83.22% over the prior year amount of US$725million. Basic earnings per share for the year were US1.72 cents.

Your management team is not pleased with the operating results. Once the sudden and dramatic drop in global consumption was realized, we immediately performed a thorough global business review and have taken all necessary actions to adjust our scale to the appropriate business level. Commencing from the third quarter of 2008 and in a significant manner, we have restructured our global manufacturing footprint, rationalized the size of our work force and stop capital expenditures where appropriate to ensure that we remain lean and competitive to our strategic partners.

Our pursuit of operating profit remains a key focus. Relocation of portions of operations to new manufacturing sites in China and India is soon to be completed with major cost savings to materialize. Efforts in automation and technology improvements in areas such as surface treatment decoration will also bear fruit in 2009. Integration of newly acquired engineering resources has been completed coupled with the economies of scale will enable us to engage in new business opportunities, as well as generating more efficiency and productivity to the newly established platform approach. We continue to emphasize cost controls in every area of our business. There are ample opportunities for FIH to improve our business, and we will continue to stress cost containment and expense reduction in 2009.

In addition to driving operational excellence for better bottom line results, top line growth and continued positive customer relationship is a high priority item on our agenda list. We have made progress in our diversification efforts. Our customer base has expanded beyond the top 5 mobile device providers in the world. This is critical to FIH, especially in these uncertain times, to better cushion the potential of market swings of the various product offerings.

CHAIRMAN'S STATEMENT

In today's market place, the most common statement heard is "lack of visibility." Moreover, the forecasted slower-growth of the handset industry, along with the current economic climate, has prompted all major players to revisit their various business strategies and tactics. We believe there will be major changes for 2009 and beyond. We are seeing a common theme of increased demands, as well as more experienced demands, for engineering and product development resources. However, there appears to be varying approaches for manufacturing outsourcing. Some players have decided to increase their internal manufacturing due to excess capacity available; others have decided to outsource even more so based on belief that higher returns can be generated on non-manufacturing investments.

We, too, have revisited our business strategies. Our strategy of vertical integration and the "one-stop shopping" model continue to impress potential customers and have been instrumental in their decision to awarding business to FIH. As such, this remains the core of our value proposition. We will continue to enhance and broaden this concept where and whenever possible. Streamlining supply chains and offering competitive cost structures are particularly attractive to our partners are critical to their success particularly in a tough environment. It is our total dedication to vertical integration that allows our Company to outdistance our competition.

For 2009, we expect the global economy and the handset industry to remain challenging. Speedy product development, timely and flexible volume ramp, expanded and more experienced engineering resources, and efficient global operations remain our key commitment to our customers. Our experienced management team will continue with its best efforts for a successful 2009.

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 2008, 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 be partners with our customer base. We are thankful for their support and we are motivated to continue to serve them in the best way possible. We would also like to thank our shareholders for their continued confidence in management. We are committed as ever to do out 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

2008 was a traumatic year for global economy and industries. The financial tsunami originated from Wall Street had rapidly swept through all regions and created a sudden freeze in global consumption and widely-spread loss of individual wealth. Badly shaken consumer confidence worldwide had transformed the market place into a world of uncertainty and economic contraction.

Despite our efforts to further diversify customer base and mitigate market and customer risks, revenue for the year 2008 was US$9,271 million, which represents a decrease of US$1,461 million, or 13.61% over the prior year revenue of US$10,732 million.

Due to changes in product mix, lower demand and pricing due to global economic downturn, and higher operating costs resulting primarily from lower utilisation of facilities, the relocation of certain of the group's production facilities, the restructuring of the group's global operations and the group's increased long-term investment in research and development activities, reduced foreign exchange gain as well as higher income tax expenses, among other things, profit for the year 2008 attributable to equity holders of the Company was US$121 million, representing a sharp decline of 83.22% over the prior year amount of US$721 million. Basic earnings per share for the year 2008 were US1.72 cents.

Aside from the financial tsunami of 2008, global handset OEM markets were marked by continued industry consolidation and 3C (computer, communication and consumer electronics) convergence pressure resulted from entry of new players. Poor visibility in global consumer demand and severe competition led to handset OEMs' ever increasing needs for further cost-down and supply chain restructuring, FIH's vertical integration capabilities and eCMMS model were hence highly appreciated by our existing and new customers. Facing the challenges in the markets, our customers continued to look for our assistance in delivering end-to-end manufacturing and services solutions to them. Our integrated mechanical and electrical engineering capabilities, together with the key components competencies and in-depth 3C industry manufacturing credentials of Hon Hai Precision Industry Company Limited ("Hon Hai") and its group companies, have proven instrumental to our customers in dealing with volatile consumer demand, shorter handset product life cycles and critical requirements for innovative product designs.

2008 also marked a year with strong smart phone growth. Several new players had either announced new products or their intention to enter the wireless smart hand-held market. We spotted the growing trend and customers' increasing demand for product design and software development in this segment. Therefore, we continued to expand the depth and scope of our technology teams' capabilities by adding more engineering resources to our design centers in Taipei, Beijing, Nanjing and Seoul. Establishment of various software platform capabilities were also top of our agenda. With such consistent investments in research and development, we demonstrated to customers our commitment to assist them in joint development and joint design projects for state-of-the-art smart handheld devices. While investments in research and developments typically may not create immediate returns, it is our belief that these investments will be key to our future success.

MANAGEMENT DISCUSSION AND ANALYSIS

Not only had we greatly increased our involvement in customers' front-end design activities, we had also expanded into the back-end after-sales repair services for our customers in 2008. Leveraging off our global footprint and logistics flexibility, several customers have entrusted us to take care of this business for them.

Feeling the uncertainties in the market, we took decisive actions towards cost optimization since the third quarter of 2008. Re-alignment of our global manufacturing resources was an essential step. We had consolidated regional operations, underwent capacity review and took necessary actions in each location. Throughout 2008, we continued moving to cost-effective new manufacturing sites in China and India. Such re-location should be completed soon to save the one-off additional costs. Our global headcount adjustment also took place to reflect the operating environment ahead. We will continue to re-align our global resources deployment according to market conditions in 2009.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2008, we had a cash balance of US$705 million. The cash balance is expected to finance our working capital and capital expenditure plans in light of our continuous sales growth. Our gearing ratio, expressed as a percentage of interest bearing external borrowings of US$478 million over total assets of US$5,528 million, was 8.65%.

Net cash generated from operating activities for the year ended 31 December 2008 was US$435 million.

Net cash used in investing activities for the year ended 31 December 2008 was US$529 million, of which US$648 million was the expenditures on property, plant and equipment related to the facilities in our major sites in China, India etc., US$167 million represented decrease in bank deposits and US$47 million represented investments in two associates.

Net cash used in financing activities for the year ended 31 December 2008 was US$506 million, primarily due to net decrease in bank loans of US$530 million, proceeds of US$7 million from the issue of shares upon the exercise of share options, US$19 million from capital contribution by the minority shareholder of Shenzhen Futaihong Guang Ming Property Co., Ltd., a subsidiary of the Company. The maturities of the bank loans were approximately 3-6 months and of which were all borrowed at fixed interest rates then.

EXPOSURES TO CURRENCY RISK AND RELATED HEDGES

In order to mitigate foreign currency risks, the group actively utilised 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 (less than 3 months) to hedge the currency risk resulting from its different currency incomes in many different countries.

MANAGEMENT DISCUSSION AND ANALYSIS

CAPITAL COMMITMENTS

As at 31 December 2008, the capital commitment of the group was US$108.48 million (2007: US$207.99 million). Usually, the capital commitment will be funded by profits generated from operations.

PLEDGE OF ASSETS

A subsidiary of the Company has pledged its corporate assets of approximately US$5.6 million (2007: US$5.9 million) to secure general banking facilities granted to the Group.

SIGNIFICANT INVESTMENTS

In 2008, we completed a significant part of the construction work for our sites in China and India. This is part of our multi-year global manufacturing strategic transition to lower cost areas. To further enhance our ability to provide better support to our key customers, we expect execution of such a transition and rationalization of our global capacity will continue in 2009.

During 2008, we continue to see selective strategic investments a valid way to expand our capabilities; our investment in the Taiwan based decorative coating expert is yet another perfect example - Ways Technical Corp., Ltd. has not only brought in the consumer much coveted surface treatment, but also enabled our growing presence and relationship in smart handheld device space.

OUTLOOK

In 2009, this dynamic and challenging environment resulting from financial tsunami will continue to remain until the global consumer confidence restored. We will cope with these challenges by further strengthen our partnerships with existing customers as well as diversify 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 the difficult market. After all, speedy product development, timely and flexible volume ramp, dedicated engineering services, and scale of global operations will be even more important to our customers' profitability and their supply chains.

Looking forward, with this vision in mind, we will continue to further enhance our vertical integration capabilities and service quality to our ever expanding customer base and continue to optimize and rationalize our manufacturing capacity in each geographic region. We will also continue to invest in research and development, engineering resources and new process technologies. With our fundamental competitive strength intact, 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 demand from our customers.

MANAGEMENT DISCUSSION AND ANALYSIS

EMPLOYEES

As at 31 December 2008, the group had a total of 108,237 (2007: 123,917) employees. Total staff costs incurred during the year 2008 amounted to US$672.20 million (2007: US$464.52 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 ("Listing Rules") on The Stock Exchange of Hong Kong Limited ("Stock Exchange").

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 58, joined the Company as Chairman and Chief Executive Officer in July 2003. Mr. Chin joined 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., Limited, 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 24 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.

Dr. DAI Feng Shuh, aged 57, joined the Company as Chief Operating Officer in February 2004. Dr. Dai joined the Hon Hai Group in July 1997, and had been one of the principal managers responsible for the handset manufacturing services business of the Hon Hai Group since March 2000, which is now wholly-owned and operated by the Company. He is also a director of principal operating subsidiaries of the Company, namely Foxconn Precision Component (Beijing) Co., Ltd., Shenzhen Futaihong Precision Industrial Co., Ltd. and Honxun Electrical Industry (Hangzhou) Co., Ltd. as well as Success World Holdings Limited, S&B Industry, Inc., FIH Co., Limited and Foxconn India Private Limited. Before joining the Company, Dr. Dai was a general manager for the PC Enclosure Group of Hon Hai and prior to that, he held production engineering management positions with Toyota–Aisin Precision Instruments in Kentucky, the US, Thailand and Indonesia. With over 24 years of experience in production engineering and international business management, Dr. Dai has been instrumental in the growth of the Company since its inception. Dr. Dai received a Ph.D. in Mechanical Engineering from University of Tokyo, Japan in 1984.

CHANG Ban Ja, Jimmy, aged 65, 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 33 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 30, 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 6 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 56, 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 29 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 54, joined the Company as a non-executive Director in December 2004. He has been a director, 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 50, joined the Company as an independent non-executive Director in December 2004. With over 25 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. He is also a consultant to the corporate finance division of PCP CPA Limited, a medium sized certified public accountant firm in Hong Kong. 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 The 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 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 64, 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 62, 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, USA a Master of Science degree in Physics and a Master of Science degree in Computer Science in 1974.

SENIOR MANAGEMENT

WU Koa Teh, Gordon, aged 61, joined the Company as senior vice president in July 2003. Prior to that, he was a vice president of Hon Hai starting in October 1998, as one of the principal managers responsible for the handset manufacturing services business. He was also a special assistant to the chief executive officer of Hon Hai, responsible for establishing and developing new business. Mr. Wu has over 31 years of experience in the mechanical engineering field, focusing on the development of computer peripherals, and more than 17 years in the management of desktop PC and PC notebook design. Before joining Hon Hai, Mr. Wu worked at Toshiba America Information Systems, Inc. for 2 years where he managed the research and development team to develop the first desktop PC for Toshiba, and earned an achievement award for best design of the year during his time there. Prior to that, he spent 20 years with Digital Equipment Corporation, working his way from design engineer to engineering manager throughout Asia and Europe. The last position he held at Digital was to start up a notebook research and development team and build the first under one inch thin and light PC notebook in the early nineties. Mr. Wu was awarded a Bachelor of Science in Industrial Engineering from Northeastern University, Illinois, US.

CHEN Hsu Tang, Tom, aged 44, 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 Foxconn Mexico Precision Industry, Co. SA de CV., one of the Company's principal operating subsidiaries. Mr. Chen joined Hon Hai in December 2000. Mr. Chen has over 19 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.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

CHAO Shan Ping, Henry, aged 52, joined the Company as director of electronic parts production and assembly in June 2004, 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 the Company's principal operating subsidiary, Honxun Electrical Industry (Hangzhou) Co., Ltd.. Before joining the Company, Mr. Chao was with Hon Hai since September 1996 and was responsible for SMT and computer motherboard manufacturing processes. Prior to that, Mr. Chao held various production and engineering management positions with Wang Computer and Delta Electronics. He has over 24 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.

KO Ming Chung, aged 46, joined the Company as director of mechanical production in June 2004, 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 close to 24 years of mechanical engineering and production management experience. Before joining the Company, he was with Hon Hai since July 1992. 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.

Michael SMITH, aged 44, joined the Company as vice president, Mexico operations in May 2004. Mr. Smith has over 17 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 55, 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 24 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 47, 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 19 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.

TAM Kam Wah, Danny, aged 45, 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 21 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 53, 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 2008.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of the principal subsidiaries are set out in the financial statements on pages 86 to 88. 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 2008 are set out in the financial statements on page 27. The Board does not recommend the payment of any dividends in respect of the year ended 31 December 2008.

RESERVES

Movements in reserves of the Group during the year are set out on page 29.

DISTRIBUTABLE RESERVES

As at 31 December 2008, the Company's reserves available for distribution amounted to US$1,386,359,000.

SHARE CAPITAL

Details of the movements in the share capital during the year are set out in note 25 to the financial statements.

FINANCIAL SUMMARY

A financial summary of the results and the balance sheet of the Group for the last five financial years is set out on page 89.

PROPERTY, PLANT AND EQUIPMENT

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

BANK LOANS

Details of bank loans are set out in note 24 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

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
MAO Yu Lang (resigned on 1 November 2008)
CHEN Fung Ming (appointed on 1 November 2008)

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. Chin Wai Leung, Samuel, Chang Ban Ja, Jimmy and Ms. Gou Hsiao Ling will retire from office by rotation at the Company's forthcoming annual general meeting and, being eligible, will offer themselves for re-election at such meeting. Pursuant to article 95 of the Articles, Mr. Chen Fung Ming, appointed as an independent non-executive director with effect from 1 November 2008, 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.

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.

REPORT OF THE DIRECTORS

DISCLOSURE OF INTERESTS

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

As at 31 December 2008, 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 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 corporations
Chin Wai Leung, Samuel	Company	Personal Interest	13,749,475	0.1947%
	Hon Hai	Personal Interest	558,690	0.0075%
Dai Feng Shuh *(Note 1)*	Company	Personal Interest	21,898,275	0.3100%
	Hon Hai	Personal Interest	124,249	0.0017%
		Family Interest	557,400	0.0075%
Chang Ban Ja, Jimmy	Hon Hai	Personal Interest	3,045,690	0.0411%
Lee Jin Ming *(Note 2)*	Hon Hai	Personal Interest	1,570,184	0.0212%
		Through a trust	280,000	0.0038%
Lu Fang Ming *(Note 3)*	Hon Hai	Personal Interest	1,669,586	0.0225%
		Family Interest	880,000	0.0119%
		Through a trust	852,000	0.0115%

Notes:

1. 557,400 shares are beneficially owned by Ms. Lee Ming Hua, the spouse of Mr. Dai Feng Shuh, and his child under the age of eighteen. Accordingly, Mr. Dai Feng Shuh is deemed to be interested in 557,400 shares which are beneficially owned by Ms. Lee Ming Hua and his child for the purposes of the SFO.

2. 280,000 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 280,000 shares which are held by the trust for the purposes of the SFO.

REPORT OF THE DIRECTORS

3. 880,000 shares are beneficially owned by Ms. Chen Hui Ling, the spouse of Mr. Lu Fang Ming, and his child under the age of eighteen. 852,000 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 880,000 shares which are beneficially owned by Ms. Chen Hui Ling and his child and 852,000 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 2008, 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 2008, shareholders (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	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	71.95%
Hon Hai *(Note)*	Interest of a controlled corporation	5,081,034,525	71.95%

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.

Save as disclosed above, as at 31 December 2008, 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.

REPORT OF THE DIRECTORS

CONTINUING CONNECTED TRANSACTIONS

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)*;
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 2008 paid by the Hon Hai Group was US$54.565 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 2008 paid to the Hon Hai Group was US$8.481 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 2008 paid to the Hon Hai Group was US$52.568 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 2008 paid by the Hon Hai Group was US$19.444 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 2008 for equipment purchase paid to the Hon Hai Group and equipment sale paid by the Hon Hai Group were US$14.204 million and US$18.244 million respectively.

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 2008 paid to the Hon Hai Group was US$512.863 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 2008 paid by the Hon Hai Group was US$2.138 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 2008 paid by the Hon Hai Group was US$7.675 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 2008 paid to the Hon Hai Group was US$35.209 million.

REPORT OF THE DIRECTORS

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*.

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 Share Scheme was amended by the shareholders at the extraordinary general meeting of the Company held on 4 August 2006.

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
332,375,767	–	–	each year on 25 July from 2006 to 2011	HK$6.06	8,998,745	13,298,390	4,378,440	–	305,700,192
2,400,000	–	–	each year on 16 July from 2008 to 2013	HK$20.63	–	–	–	–	2,400,000
300,000	–	–	each year on 7 September from 2008 to 2010	HK$20.63	–	300,000	–	–	–
335,075,767		–			8,998,745	13,598,390	4,378,440	–	308,100,192

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 9.82% 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.

REPORT OF THE DIRECTORS

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").

As at 6 March 2009, the issued share capital of the Company comprised 7,061,457,995 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 141,229,159 shares being allotted and issued under the Scheme Mandate. On the basis of the closing price of HK$2.57 per share as at 6 March 2009 and the Scheme Mandate being exercised in full, the aggregate market value of the 141,229,159 shares to be allotted and issued pursuant thereto would be approximately HK$362,958,938. 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.

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.

REPORT OF THE DIRECTORS

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 43%. Purchases from the Group's five largest suppliers accounted for approximately 33% of the Group's total purchases for the year and purchases from the Group's largest supplier amounted to approximately 17%.

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.

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 2008.

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 35 to the financial statements.

REPORT OF THE DIRECTORS

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 controls 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 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 2008.

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.

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, 6 March 2009

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 27 to 88, which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement 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, 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 2008 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, 6 March 2009

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2008

	NOTES	2008 US$'000	2007 US$'000
Turnover	6	**9,271,042**	10,732,320
Cost of sales		**(8,628,552)**	(9,748,236)
Gross profit		**642,490**	984,084
Other income	7	**204,251**	152,125
Selling expenses		**(16,558)**	(20,560)
General and administrative expenses		**(314,880)**	(228,036)
Research and development expenses		**(231,267)**	(100,878)
Impairment loss of property, plant and equipment		**(52,242)**	–
Interest expense on bank borrowings		**(31,811)**	(31,193)
Impairment loss recognised in respect of investment in an associate		**(3,250)**	–
Share of profit of associates		**671**	–
Profit before tax	8	**197,404**	755,542
Income tax expense	11	**(75,465)**	(30,063)
Profit for the year		**121,939**	725,479
Attributable to:			
Equity holders of the Company		**121,115**	721,424
Minority interests		**824**	4,055
		121,939	725,479
Earnings per share	13		
Basic		**US1.72 cents**	US10.27 cents
Diluted		**US1.70 cents**	US9.91 cents

CONSOLIDATED BALANCE SHEET

At 31 December 2008

	NOTES	2008 US$'000	2007 US$'000
Non-current assets			
Property, plant and equipment	14	**2,072,738**	1,712,759
Prepaid lease payments	15	**169,827**	121,873
Available-for-sale investments	16	**3,898**	28,027
Interests in associates	17	**40,923**	–
Goodwill	18	**63,075**	63,075
Deferred tax assets	19	**20,077**	22,095
Deposits for acquisition of property, plant and equipment		**21,775**	19,107
Deposits for prepaid lease payments		**15,360**	27,552
		2,407,673	1,994,488
Current assets			
Inventories	20	**842,863**	856,388
Investments held for trading	21	**970**	2,229
Trade and other receivables	22	**1,438,638**	2,311,446
Bank deposits	29	**132,555**	286,548
Bank balances and cash	29	**705,037**	1,255,117
		3,120,063	4,711,728
Current liabilities			
Trade and other payables	23	**1,435,284**	2,215,755
Bank loans	24	**477,932**	978,027
Provision	30	**43,290**	77,961
Tax payable		**65,541**	66,555
		2,022,047	3,338,298
Net current assets		**1,098,016**	1,373,430
Total assets less current liabilities		**3,505,689**	3,367,918
Capital and reserves			
Share capital	25	**282,458**	282,098
Reserves	26	**3,138,875**	3,026,894
Equity attributable to equity holders of the Company		**3,421,333**	3,308,992
Minority interests		**34,178**	16,177
Total equity		**3,455,511**	3,325,169
Non-current liabilities			
Deferred tax liabilities	19	**8,673**	208
Deferred income	31	**41,505**	42,541
		50,178	42,749
		3,505,689	3,367,918

The consolidated financial statements on pages 27 to 88 were approved and authorised for issue by the board of directors on 6 March 2009 and are signed on its behalf by:

DAI FENG SHUH	**CHIN WAI LEUNG, SAMUEL**
DIRECTOR	*DIRECTOR*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2008

	Attributable to equity holders of the Company										
	Share capital US$'000	Share premium US$'000	Special reserve US$'000 *(Note 26)*	Legal reserve US$'000 *(Note 26)*	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 2007	279,598	606,509	15,514	104,722	–	75,548	64,030	1,223,061	2,368,982	12,020	2,381,002
Exchange differences arising on translation of foreign operations	–	–	–	–	–	131,578	–	–	131,578	102	131,680
Gain on fair value changes of available-for-sale investments	–	–	–	–	22,632	–	–	–	22,632	–	22,632
Total income recognised directly in equity	–	–	–	–	22,632	131,578	–	–	154,210	102	154,312
Profit for the year	–	–	–	–	–	–	–	721,424	721,424	4,055	725,479
Transfer to profit or loss on disposal of a foreign operation	–	–	–	–	–	(1,286)	–	–	(1,286)	–	(1,286)
Net income recognised for the year	–	–	–	–	22,632	130,292	–	721,424	874,348	4,157	878,505
Issue of ordinary shares under Option Scheme and Share Scheme	2,500	71,973	–	–	–	–	(30,743)	–	43,730	–	43,730
Profit appropriations	–	–	–	40,812	–	–	–	(40,812)	–	–	-
Recognition of equity-settled share based payment *(Note 36)*	–	–	–	–	–	–	21,932	–	21,932	–	21,932
Balance at 31 December 2007	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
Exchange differences arising on translation of foreign operations	–	–	–	–	–	(12,245)	–	–	(12,245)	(163)	(12,408)
Loss on 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 expenses recognised directly in equity	–	–	–	–	(23,706)	(16,206)	–	–	(39,912)	(163)	(40,075)
Profit for the year	–	–	–	–	–	–	–	121,115	121,115	824	121,939
Total recognised income (expenses) 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 36)*	–	–	–	–	–	–	(31,583)	–	(31,583)	–	(31,583)
Recognition of equity-settled share based payment *(Note 36)*	–	–	–	–	–	–	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

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 CASH FLOW STATEMENT

For the year ended 31 December 2008

	NOTE	2008 US$'000	2007 US$'000
OPERATING ACTIVITIES			
Profit before tax		**197,404**	755,542
Adjustments for:			
Depreciation and amortisation		**235,145**	178,009
Share-based payment expense		**55,724**	21,932
Impairment loss of property, plant and equipment		**52,242**	–
Interest expense		**31,811**	31,193
Write down of inventories		**16,496**	6,431
Loss (gain) on disposal of property, plant and equipment		**3,625**	(1,945)
Impairment loss recognised in respect of investment in an associate		**3,250**	–
Interest income		**(33,570)**	(23,672)
Deferred income recognised to income		**(3,147)**	(4,463)
Share of profit of associates		**(671)**	–
(Increase) decrease in fair value of investments held for trading		**(583)**	487
Write back of allowances for doubtful debts		**(466)**	(27)
Gain on disposal of a subsidiary		**–**	(1,220)
Operating cash flows before movements in working capital		**557,260**	962,267
Decrease (increase) in trade and other receivables		**846,722**	(279,629)
Decrease (increase) in inventories		**10,076**	(118,624)
Increase in deferred income		**167**	9,801
(Decrease) increase in trade and other payables		**(846,322)**	210,974
(Decrease) increase in provision		**(36,700)**	15,700
Increase in investments held for trading		**–**	(2,130)
Cash generated from operations		**531,203**	798,359
Income taxes paid		**(64,150)**	(27,772)
Interest paid		**(35,974)**	(31,193)
Payments made for share-based payment expense		**(31,583)**	–
Interest received		**36,002**	23,672
NET CASH FROM OPERATING ACTIVITIES		**435,498**	763,066

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2008

	NOTE	2008 US$'000	2007 US$'000
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(648,168)**	(853,173)
Investment in associates		**(47,463)**	–
Prepaid lease payments made		**(23,225)**	(12,930)
(Increase) decrease in deposits for acquisition of property, plant and equipment		**(1,956)**	11,081
Decrease (increase) in bank deposits for investing purpose		**167,138**	(243,359)
Proceeds on disposal of property, plant and equipment		**19,198**	34,113
Proceeds from government subsidies		**5,793**	31,940
Increase in deposits for prepaid lease prepayments		**–**	(27,552)
Purchase of available-for-sale investment		**–**	(4,875)
Proceeds on disposal of a subsidiary	*28*	**–**	476
NET CASH USED IN INVESTING ACTIVITIES		**(528,683)**	(1,064,279)
FINANCING ACTIVITIES			
Bank loans repaid		**(5,585,866)**	(1,690,659)
Bank loans raised		**5,055,535**	2,521,724
Capital contribution from minority shareholder of a subsidiary		**18,508**	–
Proceeds from issue of shares		**6,997**	43,730
Dividend paid to minority shareholder of a subsidiary		**(1,168)**	–
NET CASH (USED IN) FROM FINANCING ACTIVITIES		**(505,994)**	874,795
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(599,179)**	573,582
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**1,255,117**	633,090
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**49,099**	48,445
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**705,037**	1,255,117
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances and cash		**705,037**	1,255,117

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

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 amendments and interpretations ("new IFRSs") issued by the International Accounting Standards Board which are or have become effective.

IAS 39 & IFRS 7 (Amendments)	Reclassification of Financial Assets
IFRIC – Int 11	IFRS 2: Group and Treasury Share Transactions
IFRIC – Int 12	Service Concession Arrangements
IFRIC – Int 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of the new IFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

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)	Improvements to IFRSs[1]
IAS 1 (Revised)	Presentation of Financial Statements[2]
IAS 23 (Revised)	Borrowing Costs[2]
IAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
IAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
IAS 39 (Amendment)	Eligible hedged items[3]
IFRS 1 & IAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2]
IFRS 2 (Amendment)	Vesting Conditions and Cancellations[2]
IFRS 3 (Revised)	Business Combinations[3]
IFRS 8	Operating Segments[2]
IFRIC – Int 13	Customer Loyalty Programmes[4]
IFRIC – Int 15	Agreements for the Construction of Real Estate[2]
IFRIC – Int 16	Hedges of a Net Investment in a Foreign Operation[5]
IFRIC – Int 17	Distribution of Non-cash Assets to Owners[3]
IFRIC – Int 18	Transfers of Assets from Customers[6]

1 Effective for annual periods beginning on or after 1 January 2009 except for the amendments to IFRS 5, effective for annual periods beginning on or after 1 July 2009

2 Effective for annual periods beginning on or after 1 January 2009

3 Effective for annual periods beginning on or after 1 July 2009

4 Effective for annual periods beginning on or after 1 July 2008

5 Effective for annual periods beginning on or after 1 October 2008

6 Effective for transfer on or after 1 July 2009

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 a Group's ownership interest in a subsidiary. IAS 23 (Revised) may result in inclusion of borrowing costs in the cost of qualifying assets when the borrowing costs are directly attributables to such 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 results and the financial position of the Group.

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 income statement 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations *(Continued)*

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 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant business at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a business is presented separately in the consolidated balance sheet.

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 the consolidated income statement. 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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 balance sheet 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.

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 assessed for impairment as part of the investment.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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, and freehold land, are stated at cost less accumulated depreciation and any identified impairment loss at the balance sheet date.

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 the consolidated income statement in the year in which the item is derecognised.

Prepaid lease payment

Prepaid lease payments represent payment for leasehold interest in land under operating lease arrangements and are released to consolidated income statement 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 lessee

Rentals payable under operating leases 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet 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 equity in the consolidated financial statements.

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 balance sheet date, 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 as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

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 balance sheet date. Exchange differences arising are recognised in the translation reserve.

Borrowing costs

All borrowing costs are recognised in the period in which they are incurred.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs. Grants related to depreciable assets are presented as deferred income and are released to income over the useful lives of the assets. Grants related to expense items are recognised in the same period as those expenses are charged in the consolidated income statements and are reported separately as other income.

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 each balance sheet date. Actuarial gains and losses which exceed 10% of the greater of the present value of the Group's pension obligations and the fair value of plan assets 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 balance sheet 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 income statement 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 balance sheet date.

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.

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.

The carrying amount of deferred tax assets is reviewed at each balance sheet date 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 is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is changed or credited to profit and loss, except when it relates to items changed or credited directly to equity, in which case the deferred tax is also dealt with in equity.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

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, on the same basis as intangible assets acquired separately.

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

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. 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 first-in, first-out basis.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet 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. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

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.

At each balance sheet date subsequent to initial recognition, financial assets at FVTPL are measured at fair value, with changes in fair value 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date 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.

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 on 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, or, where appropriate, a shorter period to the net carrying amount of the financial asset.

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 receivable. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. (see accounting policy on impairment loss on financial assets below).

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets of the Group are assessed for indicators of impairment at each balance sheet date. 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.

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 affected.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets (Continued)

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 assets, such as trade receivable, 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Impairment of financial assets (Continued)

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the 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-sales 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 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. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities

Financial liabilities including bank loans, 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 each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately.

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 directly in equity 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 asset 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 directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect of the time value of money 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 each balance sheet date, 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payment transactions *(Continued)*

Equity-settled share-based payment transactions (Continued)

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 each balance sheet date, 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 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, and the carrying amount of goodwill at the balance sheet date was US$63,075,000 (2007: US$63,075,000). Details of the impairment testing are provided in note 18.

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 2008, the provision is US$43,290,000 (2007: US$77,961,000).

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

Income taxes

As at 31 December 2008, a deferred tax asset of US$374,000 (2007: US$2,556,000) in relation to unused tax losses of US$1,498,000 (2007: US$10,208,000) has been recognised in the Group's balance sheet. No deferred tax asset has been recognised on the tax losses of US$308,640,000 (2007: US$25,986,000) 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. 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 the consolidated income statement for the period in which such a reversal or recognition takes place.

5. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2008	2007
	US$'000	US$'000
Financial assets		
Fair value through profit or loss		
Investments held for trading	**970**	2,229
Derivatives	**903**	6
Loans and receivables	**1,971,445**	3,638,460
Available-for-sale financial assets	**3,898**	28,027
Financial liabilities		
Amortised cost	**1,617,654**	2,905,045

Financial risk management objectives and policies

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

5. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

(a) Market risk

(i) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank loans (see note 24 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.

(ii) 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.

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 loans 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 by regular basis.

As at 31 December 2008, total notional amount of outstanding forward foreign exchange contracts that the Group has committed are approximately US$209,711,000 (2007: US$16,460,000), and their fair value is estimated to be approximately US$903,000 assets (2007: US$6,000 assets), and is included as other receivables (2007: other receivables) at the balance sheet date. The contracts mainly related to buying of Japanese Yen and US$ with maturities in first quarter of the following year.

5. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

(a) Market risk (Continued)

(ii) Currency risk (Continued)

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

	2008	2007
	US$'000	US$'000
Assets		
US$	**697,122**	621,484
Liabilities		
US$	**(832,917)**	(1,405,948)

The Group's bank borrowings of approximately US$335,829,000 (2007: US$614,785,000) as at the balance sheet date are denominated in US$ other than the functional currency of respective group entities and are included in the monetary liabilities disclosed above.

Exchange rate sensitivity

At the respective balance sheet dates, 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 increase/decrease by approximately US$10,905,000 (2007: US$20,766,000) for the year.

(b) 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 2008 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. 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 each balance sheet date 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.

5. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

(b) *Credit risk (Continued)*

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 creditabity 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.

(c) *Liquidity risk*

Ultimate responsibility for liquidity risk management rests with the directors of the Company, which 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.

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

As at 31 December 2008, the Group has available unutilised banking facilities of approximately US$2,845,536,000 (2007: US$1,971,512,000).

(d) *Other price risk*

The Group is exposed to equity price risk through its investments in equity securities. The available-for-sale investment are quoted on Taiwan OTC Market. If the price of the listed equity instruments had been 10% higher/lower investment valuation reserve of the Group would increase/decrease by approximately US$380,000 (2007: increase/decrease by approximately US$2,751,000) as a result of the changes in fair value of available-for-sale investment.

(e) *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.

6. BUSINESS AND GEOGRAPHICAL SEGMENTS

The directors consider that the Group is in a single business segment as the turnover and profit are derived entirely from the end-to-end handset manufacturing service to the customers.

Segment information regarding the Group's sales by geographical market based on the location of its customers, irrespective of the origin of the goods/services, is presented below.

INCOME STATEMENT

	Year ended 31 December 2008			
	Asia US$'000	**Europe US$'000**	**America US$'000**	**Consolidated US$'000**
TURNOVER				
External sales	**4,887,777**	**1,526,615**	**2,856,650**	**9,271,042**
RESULTS	**409,241**	**68,611**	**168,575**	**646,427**
Unallocated income				**131,514**
Unallocated expenses				**(546,147)**
Unallocated interest expense on bank borrowings				**(31,811)**
Unallocated impairment loss recognised in respect of investment in an associate				**(3,250)**
Unallocated share of profit of associates				**671**
Profit before tax				**197,404**
Income tax expense				**(75,465)**
Profit for the year				**121,939**

	Year ended 31 December 2007			
	Asia US$'000	Europe US$'000	America US$'000	Consolidated US$'000
TURNOVER				
External sales	5,757,034	2,419,608	2,555,678	10,732,320
RESULTS	541,414	210,875	225,039	977,328
Unallocated income				138,321
Unallocated expenses				(328,914)
Unallocated interest expense on bank borrowings				(31,193)
Profit before tax				755,542
Income tax expense				(30,063)
Profit for the year				725,479

Majority of the Group's sales to Asian customers is attributed to the Group's operation in China.

6. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Segment information regarding the Group's assets and liabilities by geographical market based on location of its customers are as follows:

BALANCE SHEET

	As at 31 December 2008			
	Asia US$'000	**Europe US$'000**	**America US$'000**	**Consolidated US$'000**
ASSETS				
Segment assets				
Allocated	**528,116**	**357,398**	**826,929**	**1,712,443**
Unallocated				**3,712,280**
Unallocated corporate assets				**103,013**
Consolidated total assets				**5,527,736**
LIABILITIES				
Segment liabilities				
Allocated	**–**	**45,065**	**154,185**	**199,250**
Unallocated				**1,314,852**
Unallocated corporate liabilities				**558,123**
Consolidated total liabilities				**2,072,225**

	As at 31 December 2007			
	Asia US$'000	Europe US$'000	America US$'000	Consolidated US$'000
ASSETS				
Segment assets				
Allocated	896,182	584,804	915,136	2,396,122
Unallocated				4,209,312
Unallocated corporate assets				100,782
Consolidated total assets				6,706,216
LIABILITIES				
Segment liabilities				
Allocated	–	74,246	270,620	344,866
Unallocated				1,944,351
Unallocated corporate liabilities				1,091,830
Consolidated total liabilities				3,381,047

6. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

OTHER INFORMATION

	Year ended 31 December 2008				
	Asia US$'000	Europe US$'000	America US$'000	Unallocated US$'000	Consolidated 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 allowances for doubtful debts	(143)	(13)	(310)	–	(466)
Write-down of inventories	–	10,515	6,889	(908)	16,496
Provision for warranty	31,509	5,293	5,191	–	41,993

	Year ended 31 December 2007				
	Asia US$'000	Europe US$'000	America US$'000	Unallocated US$'000	Consolidated US$'000
Capital additions	–	9,317	73,312	770,544	853,173
Depreciation and amortisation	–	15,915	24,569	137,525	178,009
(Gain) loss on disposal of property, plant and equipment	–	(1,953)	551	(543)	(1,945)
(Write back) allowances for doubtful debts	428	55	(510)	–	(27)
Write-down of inventories	–	2,136	(1,038)	5,333	6,431
Provision for warranty	62,033	11,228	9,083	–	82,344

6. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

OTHER INFORMATION *(Continued)*

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets as at 31 December		Additions to property, plant and equipment for the year ended 31 December	
	2008	2007	**2008**	2007
	US$'000	US$'000	**US$'000**	US$'000
Asia	**4,202,924**	4,846,635	**605,968**	770,544
Europe	**294,956**	351,668	**18,496**	9,317
America	**926,843**	1,407,131	**23,704**	73,312
	5,424,723	6,605,434	**648,168**	853,173

7. OTHER INCOME

An analysis of the Group's other income is as follows:

	2008	2007
	US$'000	US$'000
Interest income from bank	**33,570**	23,672
Service and subcontracting income	**72,738**	13,804
Sales of materials and scraps	**37,344**	19,741
Repair and modifications of moldings	**37,416**	15,104
Net foreign exchange gain	**12,977**	66,063
Gain on disposal of property, plant and equipment	**–**	1,945
Gain on disposal of a subsidiary	**–**	1,220
Government subsidies (Note)	**6,657**	4,219
Others	**3,549**	6,357
	204,251	152,125

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

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8. PROFIT BEFORE TAX

	2008 US$'000	2007 US$'000
Profit before tax has been arrived at after charging (crediting):		
Write back of allowance for doubtful debts, net	**(466)**	(27)
Write down of inventories	**16,496**	6,431
Amortisation of prepaid lease payments (included in general and administrative expense)	**2,977**	1,816
Auditor's remuneration	**1,395**	1,012
Cost of inventories recognised as expense	**8,570,063**	9,659,461
Provision for warranty	**41,993**	82,344
Depreciation of property, plant and equipment	**232,168**	176,193
Net foreign exchange gain	**(12,977)**	(66,063)
(Increase) decrease in fair value of investments held for trading	**(583)**	487
Gain on a disposal of a subsidiary	**–**	(1,220)
Staff costs		
Directors' remuneration	**1,434**	1,457
Retirement benefit scheme contributions (excluding directors)	**32,430**	24,749
Equity-settled share-based payments	**55,724**	21,932
Cash-settled share-based payments	**152**	1,408
Other staff costs	**582,456**	414,970
	672,196	464,516
Loss (gain) on disposal of property, plant and equipment	**3,625**	(1,945)

9. DIRECTORS' REMUNERATION

The emoluments paid or payable to each of the ten (2007: ten) directors were as follows:

2008	Fees US$'000	Other emoluments: Basic salaries and allowances US$'000	Other emoluments: Performance related incentive payments US$'000 (Note)	Other emoluments: Retirement benefit scheme contributions US$'000	Total 2008 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

2007	Fees US$'000	Other emoluments: Basic salaries and allowances US$'000	Other emoluments: Performance related incentive payments US$'000 (Note)	Other emoluments: Retirement benefit scheme contributions US$'000	Total 2007 US$'000
Chin Wai Leung, Samuel	–	1,200	–	–	1,200
Dai Feng Shuh	–	180	–	–	180
Chang Ban Ja, Jimmy	–	–	–	–	–
Gou Hsiao Ling	–	–	–	–	–
Lee Jin Ming	–	–	–	–	–
Lu Fang Ming	–	–	–	–	–
Lau Siu Ki	23	8	–	–	31
Daniel Joseph Mehan	10	–	–	–	10
Edward Fredrick Pensel	13	–	–	–	13
Mao Yu Lang	23	–	–	–	23
	69	1,388	–	–	1,457

Note: The performance related incentive payment is determined by reference to the individual performance of the directors and approved by the Remuneration Committee.

10. EMPLOYEES' EMOLUMENTS

The aggregate emoluments of the five highest paid individuals included one (2007: one) executive director of the Company, whose emoluments are included in note 9 above. The emoluments of the remaining four (2007: four) individuals were as follows:

	2008	2007
	US$'000	US$'000
Salaries and other benefits	**1,086**	477
Performance-related incentive payments	**1,321**	2,566
	2,407	3,043

Their emoluments were within the following bands:

	Number of employees	
	2008	2007
HK$4,000,001 to HK$4,500,000	**2**	–
HK$4,500,001 to HK$5,000,000	**1**	–
HK$5,000,001 to HK$5,500,000	**1**	1
HK$5,500,001 to HK$6,000,000	**–**	2
HK$6,500,001 to HK$7,000,000	**–**	1
	4	4

11. INCOME TAX EXPENSE

	2008	2007
	US$'000	US$'000
Current tax	**64,272**	35,178
(Over) underprovision in prior years	**(2,060)**	2,066
	62,212	37,244
Deferred tax *(note 19)*		
Current year	**14,084**	(3,899)
Attributable to a change in tax rate	**(831)**	(3,282)
	13,253	(7,181)
	75,465	30,063

Tax charge mainly consists of income tax in the PRC attributable to the assessable profits of the Company's subsidiaries established in the PRC. The tax charge for the year ended 31 December 2007 is calculated at the applicable rates prevailing in the PRC's Economic and Technological Development Taxes ranging from 15% to 16.5%.

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulation of the New Law. Under the New Law and Implementation Regulation, the Enterprise Income Tax rate of the Group's subsidiaries in the PRC was increased from 15% to 25% progressively from 1 January 2008 onwards. The relevant tax rates for the Group's subsidiaries in the PRC is 18% (2007: 15% to 16.5%) for the year ended 31 December 2008.

On 28 December 2007, the State Council issued the circular on the Implementation of Transitional Preferential Policies for Enterprise Income Tax by Guo Fa [2007] No. 39 which will be effective from 1 January 2008. According to the circular, from 1 January 2008, the enterprises that originally enjoy the preferential treatment of regular tax reduction and exemption such as "exemption from income tax in the first two profit-making years and a fifty percent reduction in the ensuing three years" may, after the enforcement of the New Law, enjoy the original preferential treatment in accordance with the preferential measures and term stipulated by the original tax law, administrative regulations and relevant documents until after the expiration of the entitlement period. Certain of the Company's subsidiaries operating in the PRC are eligible for the fifty percent reduction of the applicable tax rate of 18% and 15% for the year ended 31 December 2008 and 2007, respectively.

11. INCOME TAX EXPENSE *(Continued)*

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

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

	2008 US$'000	2007 US$'000
Profit before tax	**197,404**	755,542
Tax at the PRC income tax rate of 18% (2007: 15%) for the year	**35,533**	113,331
Effect of different tax rates of subsidiaries	**299**	1,348
Effect of income taxed at concessionary rate	**(15,694)**	(72,075)
Tax effect of expenses not deductible for tax purpose	**18,812**	14,117
Tax effect of income not taxable for tax purpose	**(2,570)**	(5,569)
Tax effect of tax losses/deductible temporary differences not recognised	**60,281**	2,173
Tax effect of income tax credits granted to PRC subsidiaries on acquisition of certain qualified equipment *(note)*	**(6,775)**	(11,712)
Tax refund for reinvestment in PRC subsidiaries	**(11,409)**	(10,334)
Tax effect of share of profits of associates	**(121)**	–
Tax effect of a change in tax rate	**(831)**	(3,282)
(Over) underprovision in prior years	**(2,060)**	2,066
Tax expense for the year	**75,465**	30,063

Note: Pursuant to the relevant tax rules and regulations, PRC subsidiaries of the Company can claim PRC income tax credits on 40% of the acquisition cost of certain qualified equipment manufactured in the PRC. Such PRC income tax credits are allowed, 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.

12. DIVIDEND

No dividend was paid or proposed during 2008 (2007: Nil), nor has any dividend been proposed since the balance sheet date.

13. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit for the year attributable to equity holders of the Company of US$121,115,000 (2007: US$721,424,000) and the weighted average number of 7,058,668,449 (2007: 7,021,486,715) shares in issue.

The calculation of the diluted earnings per share attributable to the equity holders of the Company is based on the following data:

	2008	2007
	US$'000	US$'000
Earnings		
Earnings for the purposes of basic and diluted earnings per share (profit for the year attributable to equity holders of the Company)	**121,115**	721,424

	2008	2007
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**7,058,668,449**	7,021,486,715
Effect of dilutive potential ordinary shares:		
Share options	**63,115,854**	255,933,595
Other share-based payment plan	**–**	2,461
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**7,121,784,303**	7,277,422,771

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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 2007	203,748	787,317	101,443	79,425	1,171,933
Exchange adjustments	17,362	58,705	4,061	3,700	83,828
Additions	104,552	374,973	29,633	344,015	853,173
Disposal of a subsidiary	(4,154)	(1,853)	–	–	(6,007)
Other disposals	(27,028)	(51,150)	(2,954)	–	(81,132)
Transfers	111,897	63,176	–	(175,073)	–
At 31 December 2007	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
DEPRECIATION AND IMPAIRMENT					
At 1 January 2007	18,035	121,707	28,287	–	168,029
Exchange adjustments	2,067	11,747	1,552	–	15,366
Charge for the year	12,398	146,075	17,720	–	176,193
Eliminated on disposal of a subsidiary	(1,567)	(21)	–	–	(1,588)
Eliminated on other disposals	(10,286)	(36,990)	(1,688)	–	(48,964)
At 31 December 2007	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 the income statement	26,912	24,139	1,191	–	52,242
At 31 December 2008	69,039	386,581	65,427	–	521,047
CARRYING VALUES					
At 31 December 2008	580,479	1,099,279	94,850	298,130	2,072,738
At 31 December 2007	385,730	988,650	86,312	252,067	1,712,759

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

Included in the land and buildings are freehold land, located in Hungary, Finland, Brazil, the United States of America, Mexico, India and Taiwan, having an aggregate cost of approximately US$24,419,000 (2007: US$34,180,000).

Certain property, plant and equipment are pledged to secure banking facilities granted to the Group as at the balance sheet dates (see note 37).

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

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

At the end of 2008, 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 impairment for those group of assets that have impairment indications and determined that a number of those assets were impaired. Impairment losses of US$26,912,000, US$24,139,000 and US$1,191,000 have been 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. PREPAID LEASE PAYMENTS

The amount represents land use rights in the PRC and India amortised over their relevant lease term ranging from 40 to 90 years.

16. AVAILABLE-FOR-SALE INVESTMENTS

	2008 US$'000	2007 US$'000
Overseas equity investment *(note a)*	**3,801**	27,507
Unlisted overseas equity investments *(note b)*	**97**	520
	3,898	28,027

Notes:

(a) As at 31 December 2008, the Group held 8.9% (2007: 8.9%) of the ordinary share capital of Advanced Optoelectronic Technology Inc., of which its shares are traded on Taiwan OTC Market. The investment is measured at the quoted price in the Taiwan OTC Market on 31 December 2008.

(b) The above unlisted investments represent investments in unlisted equity securities issued by private entities incorporated in Taiwan and Finland. They are measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

17. INTERESTS IN ASSOCIATES

	2008 US$'000
Cost of investments in associates, less impairment	
Listed in Taiwan	**34,614**
Unlisted	**9,599**
Share of post-acquisition profits and reserves, net of dividends received	**(3,290)**
	40,923
Fair value of listed investments	**24,623**

17. INTERESTS IN ASSOCIATES *(Continued)*

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, 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 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. During the year, an impairment loss of US$3,250,000 has been 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 the associate.

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 a 24% equity interest in Ways Technical Corp., Ltd. as at 31 December 2008.

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

	2008 **US$'000**
Total assets	**138,278**
Total liabilities	**(40,271)**
Net assets	**98,007**
Group's share of net assets of associates	**22,555**
Revenue	**145,571**
Profit for the year	**5,706**
Group's share of result of associates for the year	**671**

17. INTERESTS IN ASSOCIATES *(Continued)*

Included in the cost of investments in associates is goodwill of US$18,368,000 arising on the acquisition of associate. The movement of goodwill is set out as below:

	2008
	US$'000
Cost of goodwill arising on acquisition of associates	**21,618**
Impairment loss recognised during the year	**(3,250)**
	18,368

18. GOODWILL

	2008	2007
	US$'000	US$'000
At 1 January and 31 December	**63,075**	63,075

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. At the end of 2008, the Group appointed a professional valuer to perform an appraisal of the value in use of CMCS. 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 14.92% (2007: 12.97%). Cash flows beyond the 5-year period has been extrapolated using a steady 1% (2007: 2%) 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. The value in use calculated by using the discount rate is higher than the carrying amount CMCS, accordingly, there are no impairment of the goodwill with indefinite useful life.

19. DEFERRED TAXATION

The following are the major deferred tax liabilities and (assets) 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 2007	(4,516)	(7,512)	1,909	(2,529)	(553)	(696)	(13,897)
Charge (credit) to income for the year	938	3,049	(1,840)	(14)	(4,688)	(1,344)	(3,899)
Effect of change in tax rate	(1,083)	(1,788)	–	–	–	(411)	(3,282)
Exchange differences	(195)	(269)	52	(13)	(276)	(108)	(809)
At 31 December 2007	(4,856)	(6,520)	121	(2,556)	(5,517)	(2,559)	(21,887)
Charge (credit) to income for the year	(459)	3,642	(13)	2,237	945	7,732	14,084
Effect of change in tax rate	(191)	(81)	–	–	(564)	5	(831)
Exchange differences	(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)

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

	2008	2007
	US$'000	US$'000
Deferred tax assets	**(20,077)**	(22,095)
Deferred tax liabilities	**8,673**	208
	(11,404)	(21,887)

19. DEFERRED TAXATION *(Continued)*

At the balance sheet date, the Group has unused tax losses of US$310,138,000 (2007: US$36,194,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately US$1,498,000 (2007: US$10,208,000) of such losses. No deferred tax asset has been recognised in respect of the remaining US$308,640,000 (2007: US$25,986,000) 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 2013.

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 New 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 differences associated with undistributed earnings of subsidiaries as at the balance sheet debt 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.

20. INVENTORIES

	2008	2007
	US$'000	US$'000
Raw materials	**375,501**	390,936
Work-in-progress	**173,009**	154,092
Finished goods	**294,353**	311,360
	842,863	856,388

21. INVESTMENTS HELD FOR TRADING

The amount represents investment in listed shares (2007: listed bond funds) on the Taiwan Stock Exchange held for trading purpose. The fair values are determined based on the quoted market bid prices available on the Taiwan Stock Exchange as at 31 December 2008.

22. TRADE AND OTHER RECEIVABLES

	2008 US$'000	2007 US$'000
Trade receivables	1,115,817	2,064,448
Less: allowance for doubtful debts	(1,233)	(1,643)
	1,114,584	2,062,805
Other taxes recoverables	289,409	167,945
Other receivables	34,645	80,696
Total trade and other receivables	1,438,638	2,311,446

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

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

	2008 US$'000	2007 US$'000
0-90 days	1,108,015	2,038,851
91-180 days	5,586	21,066
181-360 days	386	2,138
Over 360 days	597	750
	1,114,584	2,062,805

As at the balance sheet dates, 99% (2007: 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 customer's credit quality and defines credit limits by customer. The creditability of customers is reviewed regularly.

22. TRADE AND OTHER RECEIVABLES *(Continued)*

As at 31 December 2008, trade receivables with a carrying amount of approximately US$6,569,000 (2007: US$23,954,000) 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:

	2008 US$'000	2007 US$'000
91-180 days	5,586	21,066
181-360 days	386	2,138
Over 360 days	597	750
	6,569	23,954

Movement in the allowance for doubtful debts:

	2008 US$'000	2007 US$'000
Balance at beginning of the year	1,643	1,643
Impairment losses recognised on receivables	524	587
Amounts recovered during the year	(990)	(614)
Exchange adjustments	56	27
Balance at end of the year	1,233	1,643

23. TRADE AND OTHER PAYABLES

	2008 US$'000	2007 US$'000
Trade payables	1,008,666	1,823,510
Accruals and other payables	426,618	392,245
	1,435,284	2,215,755

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

	2008 US$'000	2007 US$'000
0-90 days	961,841	1,796,333
91-180 days	34,229	19,244
181-360 days	6,296	3,542
Over 360 days	6,300	4,391
	1,008,666	1,823,510

24. BANK LOANS

	2008 US$'000	2007 US$'000
At 31 December	477,932	978,027
The Group's borrowings that are denominated in currency other than the functional currency of respective group entities		
US$	335,829	614,785
Japanese Yen	52,103	–
	387,932	614,785

The loans as at 31 December 2008 are unsecured, obtained with original maturity of three to six months and carry at fixed interest rate ranging from 1.37% to 5.32% (2007: 4.67% to 7.29%) per annum. The weighted average effective interest rate on the bank loans is 3.21% per annum (2007: 5.65% per annum).

25. SHARE CAPITAL

	Number of shares	Amount
		US$'000
Ordinary shares of US$0.04 each, authorised:		
Balance at 31 December 2007 and 31 December 2008	20,000,000,000	800,000
Ordinary shares of US$0.04 each, issued and fully paid:		
Balance at 1 January 2007	6,989,955,545	279,598
Exercise of share options *(note 36(a))*	56,253,470	2,250
Issued pursuant to a share scheme *(note 36(c))*	6,250,235	250
Balance at 31 December 2007	7,052,459,250	282,098
Exercise of share options *(note 36(a))*	8,998,745	360
Balance at 31 December 2008	7,061,457,995	282,458

26. 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.

27. 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 balance sheet date, total notional amount of outstanding forward foreign exchange contracts that the Group has committed are as below.

	2008	2007
	US$'000	US$'000
Forward foreign exchange contracts	**209,711**	16,460

As at 31 December 2008, the fair value of the Group's currency derivatives is estimated to be approximately US$903,000 assets (2007: US$6,000 assets), based on the difference between the market forward rates at the balance sheet date for the remaining duration of the outstanding contracts and their contracted forward rates and discounted using an appropriate discount rate to take into account the time value of money, and is included as other receivables (2007: other receivables) at the balance sheet date. The contracts mainly related to buying of Japanese Yen and US$ with maturities in the first quarter of 2009.

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For the year ended 31 December 2008

28. DISPOSAL OF A SUBSIDIARY

On 11 July 2007, the Group disposed its subsidiary, Foxconn Pecs Kft, to an independent thrid party. The net assets of Foxconn Pecs Kft at the date of disposal were as follows:

	US$'000
NET ASSETS DISPOSED OF	
Property, plant and equipment	4,419
Other current assets	1,633
Bank balances and cash	19
Other liabilities	(1,652)
	4,419
Exchange gain realised	(1,286)
	3,133
Gain on disposal	1,220
Total consideration	4,353
Satisfied by:	
Cash	495
Deferred consideration (included in other receivables)	3,858
	4,353
Net cash inflow arising on disposal:	
Cash consideration	495
Bank balances and cash disposed of	(19)
	476

The deferred consideration is settled in cash during the year ended 31 December 2008.

The subsidiary contributed approximately US$54,000 of net profit for the period from 1 January 2007 to the effective date of disposal.

29. BANK DEPOSITS AND BANK BALANCES AND CASH

Bank deposits carry prevailing market interest rate of 4.05% (2007: 3.46%) 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 0.86% (2007: 1.95%) per annum on average.

30. PROVISION

	2008	2007
	US$'000	US$'000
At 1 January	**77,961**	58,212
Exchange adjustments	**2,029**	4,049
Provision for the year	**41,993**	82,344
Utilisation of provision	**(78,693)**	(66,644)
At 31 December	**43,290**	77,961

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.

31. DEFERRED INCOME

	2008	2007
	US$'000	US$'000
Government subsidies	**34,456**	32,985
Sale and leaseback transaction	**7,049**	9,556
	41,505	42,541

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

31. DEFERRED INCOME *(Continued)*

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.

32. CAPITAL COMMITMENTS

	2008 US$'000	2007 US$'000
Commitments for the acquisition of property, plant and equipment contracted but not provided for	108,483	207,993

33. OPERATING LEASE ARRANGEMENTS

The Group as lessee

	2008 US$'000	2007 US$'000
Minimum lease payments under operating leases in respect of premises recognised for the year	21,444	10,165

At the balance sheet date, the Group had outstanding commitments under non-cancellable operating leases in respect of premises, which fall due as follows:

	2008 US$'000	2007 US$'000
Within one year	14,165	10,489
In the second to fifth years inclusive	12,902	16,070
Over five years	1,363	6,663
	28,430	33,222

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

34. 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:

	2008	2007
	US$'000	US$'000
Hon Hai		
Sales of goods	**28**	10,223
Purchase of goods	**58,030**	197,022
Purchase of property, plant and equipment	**3,710**	2,732
Sales of property, plant and equipment	**3,151**	234
Subcontracting income	**1,673**	1,457
Consolidated services and subcontracting expense	**867**	151
General service expense	**49**	272
General service income	**5,152**	–
Subsidiaries and associates of Hon Hai		
Sales of goods	**54,537**	210,450
Purchase of goods	**454,833**	690,795
Purchase of property, plant and equipment	**10,494**	6,130
Sales of property, plant and equipment	**15,093**	9,087
Lease income	**2,138**	–
Lease expense	**8,481**	7,201
Subcontracting income	**17,771**	12,884
Consolidated services and subcontracting expense	**34,342**	33,166
General service income	**2,523**	–
General service expense	**52,519**	64,037

In addition to the above, Shenzhen Futaihong Precision Industrial Co., Ltd. ("FTH", a wholly-owned subsidiary of the Company), Hong Fu Jin Precision Industry (Shen Zhen) Co., Ltd. ("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.

34. RELATED PARTY TRANSACTIONS *(Continued)*

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

	2008	2007
	US$'000	US$'000
Trade receivables:		
Hon Hai	**4,777**	2,374
Subsidiaries and associates of Hon Hai	**31,112**	46,118
	35,889	48,492
Other receivables:		
Hon Hai	**10**	2,500
Subsidiaries and associates of Hon Hai	**693**	604
	703	3,104
	36,592	51,596
Trade payables:		
Hon Hai	**7,065**	24,093
Subsidiaries and associates of Hon Hai	**124,408**	289,613
	131,473	313,706
Other payables:		
Hon Hai	**95**	98
Subsidiaries and associates of Hon Hai	**6,198**	9,254
	6,293	9,352
	137,766	323,058

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

34. RELATED PARTY TRANSACTIONS *(Continued)*

(c) Compensation of key management personnel

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

	2008	2007
	US$'000	US$'000
Short-term benefits	**2,603**	2,129
Share-based payments	**1,714**	3,698
	4,317	5,827

35. 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 2008 by 徐茂欽精算師, 中華民國 精算師協會 (Hsu Mao-Chin Actuary, The Actuarial Institute of the Republic of China) 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:

	2008	2007
Discount rate	**2.25%-7.70%**	2.75%-5.75%
Expected return on plan assets	**2.25-4.20%**	2.50%-5.00%
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$4,444,000 (2007: US$3,053,000) and that the actuarial value of these assets represented 94% (2007: 59%) of the benefits that had accrued to members.

35. RETIREMENT BENEFITS PLANS *(Continued)*

Amounts recognised in the consolidated income statement in respect of the defined benefit plans are as follows:

	2008	2007
	US$'000	US$'000
Current service cost	**677**	376
Interest cost	**146**	128
Expected return on plan assets	**(97)**	(66)
Net actuarial (gains)/losses	**–**	–
Past service cost	**8**	(2)
	734	436

Of the charge for the year, US$734,000 (2007: US$436,000) has been included in administrative expenses.

The actual return on plan assets was US$40,000 (2007: US$48,000) as at 31 December 2008.

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

	2008	2007
	US$'000	US$'000
Present value of funded defined benefit obligations	**4,715**	5,133
Fair value of plan assets	**(4,444)**	(3,053)
Deficit	**271**	2,080
Net actuarial gains and losses not recognised	**1,436**	384
Past service cost not recognised	**–**	–
Net liability arising from defined benefit obligations (included in other payables)	**1,707**	2,464

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.

36. SHARE-BASED PAYMENT TRANSACTIONS

(a) Equity-settled share option scheme

On 12 January 2005, the Company adopted a share option scheme (the "Option Scheme") for the primary purpose of attracting skilled and experienced personnel and incentivizing them to remain with the Group. Under the Option Scheme, the board of directors of the Company 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 must be approved by the shareholders of the Company in general meeting.

36. 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 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 of directors of the Company at the time of grant. The exercise price is determined by the board of directors of the Company, 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	Exercise period	Estimated fair value of the options granted on the date of grant	Closing price immediately before the date of grant
				HK$		US$	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

36. 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 2008:

Option type	Outstanding at 1/1/2008	Granted during the year	Exercised during the year	Lapsed during the 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

The following table discloses movements of the Company's share options held by employees during the year ended 31 December 2007:

Option type	Outstanding at 1/1/2007	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	Expired during the year	Outstanding at 31/12/2007
2005	402,914,280	–	(56,253,470)	(14,183,560)	(101,483)	–	332,375,767
2007A	–	2,400,000	–	–	–	–	2,400,000
2007B	–	300,000	–	–	–	–	300,000
	402,914,280	2,700,000	(56,253,470)	(14,183,560)	(101,483)	–	335,075,767

113,306,262 (2007: 59,349,607) share options are exercisable as at 31 December 2008.

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).

In respect of the share options exercised during the year ended 31 December 2007, the weighted average share price at the dates of exercise is US$2.85 (equivalent to HK$22.26).

The Group recognised total expense of US$15,001,000 (2007: US$19,992,000) for the year ended 31 December 2008 in relation to the share options granted by the Company.

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

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

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.

(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 2008, the Group has recorded liabilities of US$1,314,000 (2007: US$2,641,000) and recorded total expenses of US$152,000 (2007: US$1,408,000) for the year then ended. The fair value of the SARs is determined using the Black-Scholes pricing model with expected volatility of 98.56% (2007: 38.04%) risk free rate of 4.33% (2007: 4.33%) and dividend yield of 0% (2007: 0%).

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

(c) Other share-based payment plan

Pursuant to a share scheme adopted by the Company on 12 January 2005 (the "Share Scheme"), 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 its other subsidiaries.

Pursuant to the approval of the board of directors of the Company 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 of directors of the Company 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 of directors of the Company 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.

The Group recognised total expense of US$40,723,000 (2007: US$1,940,000) for the year ended 31 December 2008 in relation to the ordinary shares awarded by the Company under the Share Scheme.

37. PLEDGE OF ASSETS

As at the balance sheet date, a subsidiary of the Company has pledged its property, plant and equipment having a carrying value of approximately US$5,611,000 (2007: US$5,851,000) to secure general banking facilities granted to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

38. PRINCIPAL SUBSIDIARIES

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

Name of subsidiary	Form of business structure	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company		Principal activities
				Directly	Indirectly	
CMCS	Limited company	Taiwan	NT$1,500,000,000	–	76.332%	Design and manufacture of handsets
Eliteday Enterprises Limited	Limited company	British Virgin Islands ("BVI")	US$1	–	100%	Trading of handsets
Extra Right Enterprises Limited	Limited company	BVI	US$1	–	100%	Provision of services to group companies
FIH (Hong Kong) Limited	Limited company	Hong Kong	HK$1	–	100%	Trading of handsets
FIH Co., Limited	Limited company	Taiwan	NT$1,000,000	100%	–	Provision of services to group companies
Foxconn Beijing Trading Co., Ltd.	Limited company	BVI	US$1	100%	–	Trading of handsets
Foxconn DK ApS	Limited company	Denmark	DKK2,100,000	–	100%	Research development and project management
FIH Europe Limited Liability Company (formerly Foxconn Hungary Kft)	Limited company	Hungary	HUF10,039,000,000	–	100%	Manufacture of handsets
Foxconn Mexico Precision Industry, Co. SA de CV.	Limited company	Mexico	MXN3,007,283,685	–	100%	Manufacture of handsets
Foxconn Oy	Limited company	Finland	EUR1,558,800	–	100%	Manufacture of handsets

38. PRINCIPAL SUBSIDIARIES *(Continued)*

Name of subsidiary	Form of business structure	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company Directly	Attributable equity interest held by the Company Indirectly	Principal activities
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%	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%	Manufacture of handsets
S&B Industry Technologies Limited Partnership	Limited company	USA	US$7,218,280	–	100%	Repair centre
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%	Manufacture of handsets
Success World Holdings Limited	Limited company	Hong Kong	HK$388,525,000	100%	–	Investment holding
Sutech Industry Inc.	Limited company	USA	US$10,000	–	100%	Provision of logistics services to group companies
Sutech Trading Limited	Limited company	BVI	US$1	–	100%	Trading of handsets
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%	Manufacture of handsets
Foxconn do Brasil Indústria e Comércio de Eletrônics Ltda. (formerly Triple S Cosmoplast da Amazonia, Ltda.)	Limited company	Brazil	BRL$276,319,598	–	100%	Manufacture of handsets

38. PRINCIPAL SUBSIDIARIES *(Continued)*

Name of subsidiary	Form of business structure	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company Directly	Attributable equity interest held by the Company Indirectly	Principal activities
Foxconn India Private Limited	Limited company	India	INR2,323,830,000	–	100%	Manufacturing, import, export, distribution and assembly
富士康精密電子(煙台)有限公司 (Foxconn Precision Electronics (Yantai) Co., Ltd.)	Wholly foreign owned enterprise	PRC	US$20,000,000	–	100%	Manufacture of handsets
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%	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%	Manufacture of handsets
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%	Manufacture of handsets
Foxconn Reynosa S.A. De C.V.	Limited company	Mexico	MXN50,000	–	100%	Manufacture of handsets
FIH Technology Korea Ltd.	Limited company	Korea	KRW51,700,000	–	100%	Research development and project management
KSB International Limited	Limited company	Korea	KRW50,000,000	–	100%	Provision of logistic 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.

FINANCIAL SUMMARY

	For the year ended 31 December				
	2004	2005	2006	2007	**2008**
	(US$'million)	(US$'million)	(US$'million)	(US$'million)	**(US$'million)**
Results					
Turnover	3,308.27	6,364.50	10,381.24	10,732.32	**9,271.04**
Profit from operations	195.10	433.15	798.75	786.73	**229.21**
Interest expenses on bank borrowings	(7.37)	(13.90)	(13.29)	(31.19)	**(31.81)**
Loss on disposal of subsidiaries	(0.60)	–	–	–	**–**
Profit before tax	187.13	419.25	785.46	755.54	**197.40**
Income tax expense	(5.81)	(36.32)	(67.61)	(30.06)	**(75.47)**
Profit after tax and before minority interests	181.32	382.93	717.85	725.48	**121.93**
Minority interests	–	2.77	0.19	(4.06)	**(0.82)**
Net profit for the year	181.32	385.70	718.04	721.42	**121.11**

	As at 31 December				
	2004	2005	2006	2007	**2008**
	(US$'million)	(US$'million)	(US$'million)	(US$'million)	**(US$'million)**
Assets and liabilities					
Total assets	2,119.56	3,158.55	4,502.41	6,706.22	**5,527.74**
Total liabilities	(1,488.75)	(1,631.53)	(2,121.41)	(3,381.05)	**(2,072.23)**
Minority interests	–	(12.05)	(12.02)	(16.18)	**(34.18)**
Capital and reserves	630.81	1,514.97	2,368.98	3,308.99	**3,421.33**

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 2008 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 daunting challenges from the financial tsunami the world is facing and huge uncertainty as the result, the importance of the continuation in implementation of business plan and formulation of business strategies and to avoid create unnecessary confusion over stability to customers worldwide, the Board considers that the present arrangement for Mr. Chin, the chairman, to hold the office of chief executive officer of the Company is beneficial and in the interests of the Company and its shareholders as a whole. 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 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)*

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

Independent non-executive directors
Lau Siu Ki *(chairman of the remuneration committee and the audit committee)*
Daniel Joseph Mehan
Mao Yu Lang *(resigned on 1 November 2008)*
Chen Fung Ming *(appointed on 1 November 2008)*

CORPORATE GOVERNANCE REPORT

During the year, four Board meetings were held and the attendance of each director is set out below:

Name of director	Number of Board meetings attended in 2008
Chin Wai Leung, Samuel	4/4
Dai Feng Shuh	4/4
Chang Ban Ja, Jimmy	3/4
Gou Hsiao Ling	3/4
Lee Jin Ming	3/4
Lu Fang Ming	2/4
Lau Siu Ki	4/4
Mao Yu Lang	2/3
Daniel Joseph Mehan	4/4
Chen Fung Ming	2/2

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.

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 one of the non-executive directors commenced from 1 November 2008) 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, no share or option was granted under the Share Scheme or the Option Scheme and no meeting of the remuneration committee was held.

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 controls 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, three audit committee meetings were held, in particular, to review and discuss the auditing and financial reporting, and to review the unaudited interim results 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 2008**
Lau Siu Ki	3/3
Lee Jin Ming	3/3
Daniel Joseph Mehan	3/3

Full minutes of the meetings of the audit committee were 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 meeting.

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 Board meeting was held and the attendance of each director is set out below:

Name of director	**Number of Board meeting attended in 2008**
Chin Wai Leung, Samuel	1/1
Dai Feng Shuh	1/1
Chang Ban Ja, Jimmy	1/1
Gou Hsiao Ling	0/1
Lee Jin Ming	1/1
Lu Fang Ming	0/1
Lau Siu Ki	1/1
Mao Yu Lang	0/1
Daniel Joseph Mehan	1/1
Chen Fung Ming	1/1

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, the following remuneration was paid to the Company's auditor, Deloitte Touche Tohmatsu:

Services rendered	**Fee paid** US$000
Audit services	1,395
Non-audit services	91

CORPORATE GOVERNANCE REPORT

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 2008, 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.

The Board is also responsible for ensuring that a comprehensive and effective internal controls system is maintained within the Group so that objectives of the Group can be achieved and risks associated can be monitored and mitigated in an acceptable level. The internal controls system, which includes a defined management structure with well-defined level of authority and proper segregation of duty and physical control, 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 results of the evaluation on internal controls are reported regularly to the audit committee, the executive directors and the senior management. 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. These include 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 from the design and operating effectiveness of the internal controls revealed by these internal audits. Corrective actions are closely monitored by the executive directors and the Group internal audit function. A summary of major findings is reported quarterly to the executive directors and reviewed by the audit committee. Being a learning organization, lessons learned and best practices are disseminated and promoted within the Group.

CORPORATE GOVERNANCE REPORT

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 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 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 results and conclusions will be reported to the executive directors. The enterprise risk management system covers strategic planning, budgetary control, appointment of senior management, performance measurement, assigning responsibilities throughout the Group, human resources management, control over capital expenditure, finance management, supply chain management and legal, information technology, technical, quality, export control and product liability matters.

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 2008.

EFFECTIVE COMMUNICATION

At the 2008 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 2008 annual general meeting to answer questions from the shareholders at the meeting.

VOTING BY POLL

At the 2008 annual general meeting, the procedures for demanding a poll by the shareholders were incorporated in the annual general meeting circular. The procedures for demanding a poll by shareholders and for conducting a poll were also explained by the chairman of the Board at the meeting.