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Foxconn International Holdings Limited

富士康國際控股有限公司*

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 2038)

PRELIMINARY ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2009

The board of directors (“Board”) of Foxconn International Holdings Limited (“Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively, “Group”) for the year ended 31 December 2009 together with comparative figures for the previous year as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

	2009	2008	
	NOTES	US\$'000	US\$'000
Turnover	2	7,213,628	9,271,042
Cost of sales		(6,785,266)	(8,628,552)
 Gross profit		428,362	642,490
Other income, gains and losses	3	168,909	200,620
Selling expenses		(19,200)	(16,558)
General and administrative expenses		(244,353)	(311,249)
Research and development expenses		(196,499)	(231,267)
Impairment loss recognised for property, plant and equipment	4	(34,089)	(52,242)
Impairment loss recognised for goodwill	5	(28,630)	–
Interest expense		(4,505)	(31,811)
Impairment loss recognised for investment in an associate		–	(3,250)
Share of profits of associates		1,440	671
 Profit before tax	6	71,435	197,404
Income tax expense	7	(31,813)	(75,465)
 Profit for the year		39,622	121,939

	NOTES	2009 <i>US\$'000</i>	2008 <i>US\$'000</i>
Other comprehensive income			
Exchange differences arising on translation of foreign operations		65,598	(12,408)
Fair value changes of available-for-sale investments		(1,836)	(23,706)
Reclassification adjustment upon impairment of available-for-sale investments		2,910	—
Share of translation reserve of associates		3,873	(3,961)
		<hr/>	<hr/>
Other comprehensive income for the year		70,545	(40,075)
		<hr/>	<hr/>
Total comprehensive income for the year		110,167	81,864
		<hr/>	<hr/>
Profit for the year attributable to:			
Owners of the Company		38,587	121,115
Minority interests		1,035	824
		<hr/>	<hr/>
		39,622	121,939
		<hr/>	<hr/>
Total comprehensive income attributable to:			
Owners of the Company		108,669	81,203
Minority interests		1,498	661
		<hr/>	<hr/>
		110,167	81,864
		<hr/>	<hr/>
Earnings per share	8		
Basic		US0.55 cents	US1.72 cents
		<hr/>	<hr/>
Diluted		US0.55 cents	US1.70 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2009

	NOTES	2009 US\$'000	2008 US\$'000
Non-current assets			
Property, plant and equipment		1,823,185	2,072,738
Investment properties		38,330	—
Prepaid lease payments		161,421	169,827
Available-for-sale investments		1,619	3,898
Interests in associates		46,235	40,923
Goodwill		34,445	63,075
Deferred tax assets		33,016	20,077
Deposits for acquisition of property, plant and equipment		6,346	21,775
Deposits for prepaid lease payments		—	15,360
		2,144,597	2,407,673
Current assets			
Inventories		716,160	842,863
Investments held for trading		—	970
Trade and other receivables	10	1,412,821	1,438,638
Bank deposits		160,805	132,555
Bank balances and cash		1,200,725	705,037
		3,490,511	3,120,063
Current liabilities			
Trade and other payables	11	1,522,749	1,435,284
Bank borrowings		362,639	477,932
Provision		23,533	43,290
Tax payable		57,956	65,541
		1,966,877	2,022,047
Net current assets		1,523,634	1,098,016
Total assets less current liabilities		3,668,231	3,505,689
Capital and reserves			
Share capital		283,995	282,458
Reserves		3,287,796	3,138,875
Equity attributable to owners of the Company		3,571,791	3,421,333
Minority interests		35,676	34,178
Total equity		3,607,467	3,455,511
Non-current liabilities			
Deferred tax liabilities		3,421	8,673
Deferred income		57,343	41,505
		60,764	50,178
		3,668,231	3,505,689

Notes:

1. APPLICATION OF NEW AND REVISED ACCOUNTING STANDARDS

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

IAS 1 (Revised 2007)	Presentation of Financial Statements
IAS 23 (Revised 2007)	Borrowing Costs
IAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
IFRS 1 & IAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
IFRS 2 (Amendment)	Vesting Conditions and Cancellations
IFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
IFRS 8	Operating Segments
IFRIC – Int 9 & IAS 39 (Amendments)	Embedded Derivatives
IFRIC – Int 13	Customer Loyalty Programmes
IFRIC – Int 15	Agreements for the Construction of Real Estate
IFRIC – Int 16	Hedges of a Net Investment in a Foreign Operation
IFRIC – Int 18	Transfers of Assets from Customers
IFRSs (Amendments)	Improvements to IFRSs issued in 2008, except for the amendment to IFRS 5 that is effective for annual periods beginning or after 1 July 2009
IFRSs (Amendments)	Improvements to IFRSs issued in 2009 in relation to the amendment to paragraph 80 of IAS 39

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

IAS 1 (Revised 2007) Presentation of Financial Statements

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

IFRS 8 Operating Segments

IFRS 8 is a disclosure standard and has not resulted in a redesignation of the Group’s reportable segments as compared with the primary reportable segments (see note 2).

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

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

IAS 23 (Revised 2007) Borrowing Costs

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

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

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

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

² Effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate.

³ Effective for annual periods beginning on or after 1 January 2010.

⁴ Effective for annual periods beginning on or after 1 February 2010.

⁵ Effective for annual periods beginning on or after 1 January 2011.

⁶ Effective for annual periods beginning on or after 1 July 2010.

⁷ Effective for annual periods beginning on or after 1 January 2013.

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

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

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

2. SEGMENT INFORMATION

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

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

Segment revenue and results

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

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

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

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

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

Segment assets and liabilities

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

	2009 US\$'000	2008 US\$'000
ASSETS		
Segment assets		
Allocated		
Asia	552,408	528,116
Europe	320,493	357,398
America	562,676	826,929
	1,435,577	1,712,443
Total	1,435,577	1,712,443
Unallocated		
Property, plant and equipment	1,707,588	1,941,318
Inventories	585,319	688,874
Cash and cash equivalents	1,271,730	777,985
Others	539,014	304,103
Corporate assets	95,880	103,013
	5,635,108	5,527,736
Consolidated total assets	5,635,108	5,527,736
LIABILITIES		
Segment liabilities		
Allocated		
Asia	-	-
Europe	14,867	45,065
America	86,497	154,185
	101,364	199,250
Total	101,364	199,250
Unallocated		
Trade and other payables	1,427,854	1,247,250
Others	73,558	67,602
Corporate liabilities	424,865	558,123
	2,027,641	2,072,225
Consolidated total liabilities	2,027,641	2,072,225

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

3. OTHER INCOME, GAINS AND LOSSES

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

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

4. IMPAIRMENT LOSS RECOGNISED FOR PROPERTY, PLANT AND EQUIPMENT

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

5. IMPAIRMENT LOSS RECOGNISED FOR GOODWILL

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

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

The recoverable amount has been determined based on a value-in-use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and discount rate of 13.17% (2008: 14.92%). Cash flows beyond the 5-year period has been extrapolated using a steady 2% (2008: 1%) growth rate. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Another key assumption for the value-in-use calculations is the budgeted gross margin, which is determined based on the unit's past performance and management's expectations for the market development.

6. PROFIT BEFORE TAX

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

7. INCOME TAX EXPENSE

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

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

8. EARNINGS PER SHARE

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

	2009 US\$'000	2008 US\$'000
Earnings		
Earnings for the purposes of basic and diluted earnings per share (profit for the year attributable to owners of the Company)	<u>38,587</u>	<u>121,115</u>
	2009	2008
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	<u>7,066,326,311</u>	7,058,668,449
Effect of dilutive potential ordinary shares:		
Share options	<u>–</u>	<u>63,115,854</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>7,066,326,311</u>	<u>7,121,784,303</u>

9. DIVIDEND

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

10. TRADE AND OTHER RECEIVABLES

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

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

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

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

11. TRADE AND OTHER PAYABLES

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Review of Results and Operations

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

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

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

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

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

Our major site-consolidation and resources-alignment efforts continued in 2009. We disposed the land and its holding entity in Yantai as part of the re-launched development efforts for the new Korean customer's business. We also continued the right-sizing actions for our sites world-wide and turned

around less satisfactory performance of a number of them. We also persistently pushed for re-locations of our teams and capacity to the new sites in northern China for the purposes of lowering costs and easier hiring of workers. All these actions formed integral parts of our consistent strategy for optimal resources deployment and manufacturing platform consolidation.

Liquidity and Financial Resources

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

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

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

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

Exposures to Currency Risk and Related Hedges

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

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

Capital Commitments

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

Pledge of Assets

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

Significant Investments

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

Outlook

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

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

Employees

As at 31 December 2009, the Group had a total of 118,702 (2008: 108,237) employees. Total staff costs incurred during the year 2009 amounted to US\$485 million (2008: US\$672 million). The Group offers a comprehensive remuneration policy which is reviewed by the management on a regular basis.

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

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 3 June 2010 to Tuesday, 8 June 2010, both days inclusive, during which period no transfer of shares will be registered. In order to determine who are entitled to attend the Company's forthcoming annual general meeting to be held on Tuesday, 8 June 2010, all transfers of shares accompanied by the relevant share certificates and properly completed transfer forms must be lodged with the branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 2 June 2010.

CORPORATE GOVERNANCE

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

Under code provision A.2.1 of the CCGP, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Chin Wai Leung, Samuel currently holds both positions in the Company. In light of the aftermath of financial tsunami the world has and could be facing and handset industry's fundamental changes, the Board considers that experienced leadership is a must. The present arrangement for Mr. Chin, the chairman, to hold the office of chief executive officer of the Company is not only instrumental to the continuation in implementation of business plan and formulation of business strategies, but also crucial to avoid unnecessary confusion or instability to customers worldwide. This is beneficial to the interests of the Company and its shareholders. However, in the spirit of corporate governance, the Board will continue to review in the current year the roles of chairman and chief executive officer and, if considered appropriate, separate the two roles in compliance with code provision A.2.1 of the CCGP. The Company has also introduced a new executive director to the Board in 2009 and promoted a few new senior managers to higher positions with the view to accelerate the leadership transition and succession plan.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2009.

AUDIT COMMITTEE

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

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

DISCLOSURE OF INFORMATION ON WEBSITES

The 2009 Annual Report of the Company containing all the information required by the Listing Rules will be despatched to shareholders of the Company and made available on the websites of The Stock Exchange of Hong Kong Limited and the Company respectively in due course.

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

Hong Kong, 15 April 2010

As at the date of this announcement, the executive directors of the Company are Messrs. Chin Wai Leung, Samuel and Chih Yu Yang, the non-executive directors of the Company are Messrs. Chang Ban Ja, Jimmy, Lee Jin Ming and Lu Fang Ming and Miss Gou Hsiao Ling and the independent non-executive directors of the Company are Messrs. Lau Siu Ki, Chen Fung Ming and Dr. Daniel Joseph Mehan.

* for identification purposes only