

*Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.*



# **Foxconn International Holdings Limited**

**富士康國際控股有限公司\***

*(Incorporated in the Cayman Islands with limited liability)*

(Stock Code: 2038)

## **ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2010**

The board of directors (“Board”) of Foxconn International Holdings Limited (“Company”) announces the unaudited consolidated results of the Company and its subsidiaries (“Group”) for the period of six months ended 30 June 2010 together with comparative figures for the previous corresponding period as follows:

### **CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2010**

		<b>Six months ended</b>	
		<b>30.6.2010</b>	<b>30.6.2009</b>
		<b>US\$'000</b>	<b>US\$'000</b>
	<i>NOTES</i>	<b>(unaudited)</b>	<b>(unaudited)</b>
Turnover	4	<b>3,229,381</b>	3,161,747
Cost of sales		<b>(3,139,189)</b>	(2,952,101)
Gross profit		<b>90,192</b>	209,646
Other income, gains and losses		<b>74,662</b>	53,264
Selling expenses		<b>(14,127)</b>	(7,939)
General and administrative expenses		<b>(111,622)</b>	(123,776)
Research and development expenses		<b>(109,948)</b>	(86,877)
Impairment loss recognised for property, plant and equipment	9	<b>(23,538)</b>	(10,172)
Impairment loss recognised for goodwill	10	<b>(34,445)</b>	(28,630)
Interest expense on bank borrowings		<b>(2,292)</b>	(3,720)
Share of profits of associates		<b>348</b>	1,117
(Loss) profit before taxation		<b>(130,770)</b>	2,913
Taxation	5	<b>(13,686)</b>	(20,792)
Loss for the period	6	<b>(144,456)</b>	(17,879)

		<b>Six months ended</b>	
		<b>30.6.2010</b>	<b>30.6.2009</b>
		<b>US\$'000</b>	<b>US\$'000</b>
<i>NOTES</i>		<b>(unaudited)</b>	<b>(unaudited)</b>
Other comprehensive income:			
Exchange differences arising on translation of foreign operations		<b>1,069</b>	31,890
Fair value changes of available-for-sale investments		–	(1,836)
Reclassification adjustment upon impairment of available-for-sale investments		–	2,910
Share of translation reserve of associates		<b>1,128</b>	1,048
Other comprehensive income for the period		<b>2,197</b>	34,012
Total comprehensive (expense) income for the period		<b>(142,259)</b>	16,133
(Loss) profit for the period attributable to:			
Owners of the Company		<b>(142,636)</b>	(18,700)
Non-controlling interests		<b>(1,820)</b>	821
		<b>(144,456)</b>	(17,879)
Total comprehensive (expense) income attributable to:			
Owners of the Company		<b>(140,606)</b>	15,195
Non-controlling interests		<b>(1,653)</b>	938
		<b>(142,259)</b>	16,133
Loss per share	8		
Basic		<b>(US2.00 cents)</b>	(US0.26 cents)
Diluted		<b>(US2.00 cents)</b>	(US0.26 cents)

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2010

		<b>30.6.2010</b>	31.12.2009
		<b>US\$'000</b>	<b>US\$'000</b>
	<i>NOTES</i>	<b>(unaudited)</b>	<b>(audited)</b>
Non-current assets			
Property, plant and equipment	9	<b>1,681,191</b>	1,823,185
Investment properties	9	<b>45,495</b>	38,330
Prepaid lease payments	9	<b>132,891</b>	161,421
Available-for-sale investments		<b>86</b>	1,619
Interests in associates		<b>45,455</b>	46,235
Goodwill	10	<b>–</b>	34,445
Deferred tax assets	11	<b>29,062</b>	33,016
Deposits for acquisition of property, plant and equipment		<b>11,435</b>	6,346
		<b>1,945,615</b>	2,144,597
Current assets			
Inventories		<b>727,319</b>	716,160
Trade and other receivables	12	<b>1,673,101</b>	1,412,821
Bank deposits		<b>286,183</b>	160,805
Bank balances and cash		<b>1,111,352</b>	1,200,725
		<b>3,797,955</b>	3,490,511
Current liabilities			
Trade and other payables	13	<b>1,456,421</b>	1,522,749
Bank borrowings	14	<b>634,504</b>	362,639
Provision	15	<b>25,884</b>	23,533
Tax payable		<b>57,098</b>	57,956
		<b>2,173,907</b>	1,966,877

		<b>30.6.2010</b>	31.12.2009
		<b>US\$'000</b>	<b>US\$'000</b>
	<i>NOTES</i>	<b>(unaudited)</b>	<b>(audited)</b>
Net current assets		<u><b>1,624,048</b></u>	<u>1,523,634</u>
Total assets less current liabilities		<u><b>3,569,663</b></u>	<u><b>3,668,231</b></u>
Capital and reserves			
Share capital		<b>285,728</b>	283,995
Reserves		<u><b>3,183,381</b></u>	<u>3,287,796</u>
Equity attributable to owners of the Company		<b>3,469,109</b>	3,571,791
Non-controlling interests		<u><b>43,303</b></u>	<u>35,676</u>
Total equity		<u><b>3,512,412</b></u>	<u>3,607,467</u>
Non-current liabilities			
Deferred tax liabilities	<i>11</i>	<b>2,603</b>	3,421
Deferred income	<i>16</i>	<u><b>54,648</b></u>	<u>57,343</u>
		<u><b>57,251</b></u>	<u>60,764</u>
		<u><b>3,569,663</b></u>	<u><b>3,668,231</b></u>

*Notes:*

## **1. INDEPENDENT REVIEW**

The interim results for the period of six months ended 30 June 2010 are unaudited, but have been reviewed by the Company's auditors, Deloitte Touche Tohmatsu, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. The unmodified review report is included in the interim report to be sent to shareholders.

## **2. BASIS OF PREPARATION**

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and with International Accounting Standard ("IAS") 34 "Interim Financial Reporting".

## **3. PRINCIPAL ACCOUNTING POLICIES**

The condensed consolidated financial statements have been prepared on the historical cost basis except for financial instruments, which are measured at fair values.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2009, except as described below.

In the current interim period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations ("new or revised IFRSs") issued by the International Accounting Standards Board.

IFRSs (Amendments)	Amendment to IFRS 5 as part of Improvements to IFRSs 2008
IFRSs (Amendments)	Improvements to IFRSs 2009
IAS 27 (Revised)	Consolidated and Separate Financial Statements
IAS 39 (Amendment)	Eligible Hedged Items
IFRS 1 (Amendment)	Additional Exemptions for First-time Adopters
IFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions
IFRS 3 (Revised)	Business Combinations
IFRIC 17	Distributions of Non-cash Assets to Owners

## **IFRS 3 (Revised 2008) “Business Combinations” and IAS 27 (Revised) “Consolidated and Separate Financial Statements”**

The Group applies IFRS 3 (Revised) “Business Combinations” prospectively to business combinations for which the acquisition date is on or after 1 January 2010. The requirements in IAS 27 (Revised) “Consolidated and Separate Financial Statements” in relation to accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by the Group on or after 1 January 2010.

As there was no transaction during the current interim period in which IFRS 3 (Revised) and IAS 27 (Revised) are applicable, the application of IFRS 3 (Revised), IAS 27 (Revised) and the consequential amendments to other IFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

Results of the Group in future periods may be affected by future transactions for which IFRS 3 (Revised), IAS 27 (Revised) and the consequential amendments to the other IFRSs are applicable.

## **Amendment to IAS 17 “Leases”**

As part of Improvements to IFRSs issued in 2009, IAS 17 “Leases” has been amended in relation to the classification of leasehold land. Before the amendment to IAS 17, the Group was required to classify leasehold land as operating leases and to present leasehold land as prepaid lease payments in the condensed consolidated statement of financial position. The amendment to IAS 17 has removed such a requirement. The amendment requires that the classification of leasehold land should be based on the general principles set out in IAS 17, that is, whether or not substantially all the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee. The adoption of Amendment to IAS 17 “Leases” had no material impact on the condensed consolidated financial statements.

The application of the other new and revised IFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

The Group has not early applied the following new or revised standards, amendments or interpretations that have been issued but are not yet effective:

IFRSs (Amendments)	Improvements to IFRSs 2010 <sup>1</sup>
IAS 24 (Revised)	Related Party Disclosures <sup>4</sup>
IAS 32 (Amendment)	Classification of Rights Issues <sup>2</sup>
IFRS 1 (Amendment)	Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters <sup>3</sup>
IFRS 9	Financial Instruments <sup>5</sup>
IFRIC 14 (Amendment)	Prepayments of a Minimum Funding Requirement <sup>4</sup>
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments <sup>3</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate

<sup>2</sup> Effective for annual periods beginning on or after 1 February 2010

<sup>3</sup> Effective for annual periods beginning on or after 1 July 2010

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2011

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2013

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 are 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 other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

#### 4. SEGMENT INFORMATION

The Group’s operating segments, based on information reported to the chief operating decision maker, the Chief Executive Officer, are organised into three operating segments based on the location of customers – Asia, Europe and America.

Segment information is presented below:

	<b>Six months ended</b>	
	<b>30.6.2010</b>	30.6.2009
	<b>US\$’000</b>	US\$’000
	<b>(unaudited)</b>	(unaudited)
<b>EXTERNAL SALES</b>		
Asia	<b>1,526,495</b>	1,433,452
Europe	<b>945,537</b>	621,999
America	<b>757,349</b>	1,106,296
<b>Total</b>	<b><u>3,229,381</u></b>	<b><u>3,161,747</u></b>
<b>RESULTS</b>		
Asia	<b>77,047</b>	114,093
Europe	<b>31,904</b>	41,744
America	<b>14,083</b>	62,317
	<b>123,034</b>	218,154
Other income, gains and losses	<b>27,693</b>	26,645
General and administrative and research and development expenses	<b>(221,570)</b>	(210,653)
Impairment loss recognised for goodwill	<b>(34,445)</b>	(28,630)
Impairment loss recognised for property, plant and equipment	<b>(23,538)</b>	–
Interest expense on bank borrowings	<b>(2,292)</b>	(3,720)
Share of profits of associates	<b>348</b>	1,117
<b>(Loss) profit before taxation</b>	<b><u>(130,770)</u></b>	<b><u>2,913</u></b>

Segment profits represent the gross profits earned by each segment including the service income included in other income, gains and losses. This is the measure reported to the Chief Executive Officer, for the purposes of resources allocation and performance assessment.

## 5. TAXATION

	Six months ended	
	30.6.2010	30.6.2009
	US\$'000	US\$'000
	(unaudited)	(unaudited)
Current tax	8,937	11,833
Underprovision in prior periods	<u>1,743</u>	<u>14,024</u>
	10,680	25,857
Deferred tax ( <i>note 11</i> )		
– Current period	4,223	(4,146)
– Change in tax rate	<u>(1,217)</u>	<u>(919)</u>
	<u><u>13,686</u></u>	<u><u>20,792</u></u>

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

During the six months ended 30 June 2009, 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 Union which required Foxconn Beijing to cease applying the concessionary tax rate and apply the standard tax rate of 25% with effect from 1 January 2008. Foxconn Beijing was requested 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 the period ended 30 June 2009.

During the current period, Foxconn Beijing was awarded the Advanced-Technology Enterprise Certificate and entitled for a tax reduction from 25% to 15% with effective from 1 January 2009.

The change in tax rate in current period was mainly arising from the change in tax rate of Foxconn Beijing as mentioned above; and Shenzhen Futaihong Precision Industrial Co., Ltd. and Honxun Electrical Industry (Hangzhou) Co., Ltd. from 20% and 15% respectively to 25%.

## 6. LOSS FOR THE PERIOD

	Six months ended	
	30.6.2010	30.6.2009
	US\$'000	US\$'000
	(unaudited)	(unaudited)
Loss for the period has been arrived at after charging (crediting):		
Allowance for doubtful debts	632	572
Write down of inventories	6,778	11,620
Amortisation of prepaid lease payments (included in general and administrative expenses)	1,486	1,552
Cost of inventories recognised as expense	3,129,476	2,944,566
Provision for warranty	9,713	7,535
Depreciation of property, plant and equipment	142,785	122,737
Depreciation of investment properties	979	–
Impairment loss recognised for available-for-sale investments	1,519	2,910
Interest income from bank	<u>(8,754)</u>	<u>(6,654)</u>

## 7. DIVIDEND

No dividend was paid during the six months ended 30 June 2010 (six months ended 30 June 2009: Nil). The directors do not recommend the payment of an interim dividend.

## 8. LOSS PER SHARE

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

	Six months ended	
	30.6.2010	30.6.2009
	US\$'000	US\$'000
	(unaudited)	(unaudited)
<b>Loss</b>		
Loss for the purposes of calculating basic and diluted loss per share	<u>(142,636)</u>	<u>(18,700)</u>
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	<u>7,130,775,584</u>	<u>7,061,459,409</u>

The computation of diluted loss per share for six months ended 30 June 2010 and 2009 does not assume the exercise of the Company's share options as the exercise of the outstanding options would result in a decrease in the loss per share for both periods.

## 9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES AND PREPAID LEASE PAYMENTS

During the period, the Group acquired property, plant and equipment of approximately US\$168,820,000 (2009: US\$80,932,000).

During the period, the Group disposed of an amount of US\$27,660,000 prepaid lease payments at its carrying amount. (2009: nil)

In addition, the Group disposed of certain property, plant and equipment with a carrying amount of US\$123,076,000 (2009: US\$20,463,000) for proceeds of US\$124,411,000 (2009: US\$18,762,000), resulting in a gain on disposal of US\$1,335,000 (2009: a loss of US\$1,701,000).

During the period, certain buildings with aggregate carrying amount of US\$7,902,000 (2009: US\$39,223,000) were transferred from property, plant and equipment to investment properties at net book value.

The Group reviews property, plant and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. At the end of the reporting period, the management assessed the recoverable amounts of the property, plant and equipment which were affected by the Group's re-location plans and changing economic environment. Impairment of property, plant and equipment is measured by comparing its carrying amount to its recoverable amounts which is determined as its value in use and estimated by reference to the projected discounted cash flows that are expected to generate from property, plant and equipment. Impairment loss of US\$23,538,000 (2009: US\$10,172,000) has been recognised during the period.

## 10. GOODWILL

	US\$'000
At 1 January 2009	63,075
Impairment loss recognised during the year	<u>(28,630)</u>
At 31 December 2009	34,445
Impairment loss recognised during the period	<u>(34,445)</u>
At 30 June 2010	<u><u>—</u></u>

The amount represents goodwill resulted from acquisition of 76.3% (2009: 76.3%) interest in Chi Mei Communication Systems, Inc., ("CMCS") in 2005.

At 30 June 2010, the management of the Group assessed the recoverable amount of CMCS with reference to the value-in-use and determined that the related goodwill was fully impaired (2009: US\$28,630,000). The main factor contributing to the impairment of the cash generating unit was due to the change in the business conditions and strategy of its customers in the competitive market.

The basis of the calculating recoverable amount and the principal underlying assumptions are summarised as below:

That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and discount rate of 13.17% (2009: 14.92%). Cash flows beyond the 5-year period has been extrapolated using a steady 2% growth rate (2009: 1%) for further 15 years. The growth rate and the budgeted gross margin are determined based on the unit's past performance and management's expectations for the market development.

## 11. DEFERRED TAXATION

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

	Allowances for inventories, trade and other receivables <i>US\$'000</i>	Warranty provision <i>US\$'000</i>	Accelerated tax depreciation <i>US\$'000</i>	Tax losses <i>US\$'000</i>	Deferred income <i>US\$'000</i>	Others <i>US\$'000</i>	Total <i>US\$'000</i>
At 1 January 2009	(5,844)	(3,355)	103	(374)	(5,272)	3,338	(11,404)
Charge (credit) to profit or loss for the period	(1,804)	(430)	(22)	363	602	(2,855)	(4,146)
Effect of change in tax rate	(243)	(327)	–	6	285	(640)	(919)
Exchange adjustments	(5)	(3)	(1)	5	(6)	40	30
At 30 June 2009	<u>(7,896)</u>	<u>(4,115)</u>	<u>80</u>	<u>–</u>	<u>(4,391)</u>	<u>(117)</u>	<u>(16,439)</u>
At 1 January 2010	(9,497)	(2,762)	(17)	(2,812)	(9,315)	(5,192)	(29,595)
Charge (credit) to profit or loss for the period	8,395	1,526	(36)	(8,043)	819	1,562	4,223
Effect of change in tax rate	(1,770)	(300)	4	898	(460)	411	(1,217)
Exchange adjustments	(35)	(21)	3	(42)	130	95	130
At 30 June 2010	<u>(2,907)</u>	<u>(1,557)</u>	<u>(46)</u>	<u>(9,999)</u>	<u>(8,826)</u>	<u>(3,124)</u>	<u>(26,459)</u>

For the purposes of presentation in the condensed consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	<b>30.6.2010</b> <b><i>US\$'000</i></b> <b>(unaudited)</b>	<b>31.12.2009</b> <b><i>US\$'000</i></b> <b>(audited)</b>
Deferred tax assets	<b>(29,062)</b>	(33,016)
Deferred tax liabilities	<b>2,603</b>	3,421
	<b><u>(26,459)</u></b>	<b><u>(29,595)</u></b>

At 30 June 2010, the Group has unused tax losses of US\$560,467,000 (31.12.2009: US\$430,873,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately US\$65,806,000 (31.12.2009: US\$ 11,411,000) of such losses. No deferred tax asset has been recognised during current period in respect of the unused tax losses of US\$494,661,000 (31.12.2009: US\$419,462,000) either due to the unpredictability of future profit streams or because it is not probable that the unused tax losses will be available for utilisation before their expiry. The unrecognised tax losses will expire before 2014.

Under the Law of the People's Republic of China ("PRC") on Enterprise Income Tax, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. No liability has been recognised in respect of temporary differences associated with undistributed earnings of subsidiary from 1 January 2008 onwards of approximately US\$686,282,000 (31.12.2009: US\$ 733,288,000) as at the end of reporting period because the Group is in a position to control the timing of the reversal of the temporary difference and it is probable that such differences will not reverse in the foreseeable future.

## 12. TRADE AND OTHER RECEIVABLES

	<b>30.6.2010</b> <i>US\$'000</i> (unaudited)	31.12.2009 <i>US\$'000</i> (audited)
Trade receivables	<b>1,262,564</b>	1,068,898
Other receivables, deposits and prepayments	<b>410,537</b>	343,923
	<b><u>1,673,101</u></b>	<b><u>1,412,821</u></b>

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:

	<b>30.6.2010</b> <i>US\$'000</i> (unaudited)	31.12.2009 <i>US\$'000</i> (audited)
0-90 days	<b>1,245,366</b>	1,057,062
91-180 days	<b>7,639</b>	6,767
181-360 days	<b>6,037</b>	3,727
Over 360 days	<b>3,522</b>	1,342
	<b><u>1,262,564</u></b>	<b><u>1,068,898</u></b>

### 13. TRADE AND OTHER PAYABLES

	30.6.2010 US\$'000 (unaudited)	31.12.2009 US\$'000 (audited)
Trade payables	1,128,459	1,162,781
Accruals and other payables	327,962	359,968
	<u>1,456,421</u>	<u>1,522,749</u>

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

	30.6.2010 US\$'000 (unaudited)	31.12.2009 US\$'000 (audited)
0-90 days	1,101,816	1,152,835
91-180 days	17,562	2,888
181-360 days	2,367	1,854
Over 360 days	6,714	5,204
	<u>1,128,459</u>	<u>1,162,781</u>

### 14. BANK BORROWINGS

	30.6.2010 US\$'000 (unaudited)	31.12.2009 US\$'000 (audited)
Proceeds from bills receivables discounted with recourse	–	40,348
Bank loans	634,504	322,291
	<u>634,504</u>	<u>362,639</u>
Analysis of borrowings by currency:		
USD	632,657	322,291
Renminbi	–	40,348
Euro	1,847	–
	<u>634,504</u>	<u>362,639</u>

The bank borrowings as at the end of the reporting period are unsecured, obtained with original maturity of less than one year and carry interest rate ranging from 0.66% to 1.88% (2009: 0.35% to 1.58%) per annum.

## 15. PROVISION

	<b>Warranty provision</b> <i>US\$'000</i>
At 1 January 2009	43,290
Exchange adjustments	(13)
Provision for the year	19,364
Utilisation of provision	(38,701)
Eliminated on disposal of a subsidiary	(407)
	<hr/>
At 31 December 2009	23,533
Exchange adjustments	118
Provision for the period	9,713
Utilisation of provision	(7,480)
	<hr/>
At 30 June 2010	<u>25,884</u>

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.

## 16. DEFERRED INCOME

	<b>30.6.2010</b> <i>US\$'000</i> <b>(unaudited)</b>	31.12.2009 <i>US\$'000</i> <b>(audited)</b>
Government subsidies	<b>51,246</b>	52,285
Sale and leaseback transaction	<u><b>3,402</b></u>	<u>5,058</u>
	<u><b>54,648</b></u>	<u>57,343</u>

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

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Review of Results and Operations**

For the six-month period ended 30 June 2010, the Group recorded a 2.12% year-on-year increase in consolidated turnover of US\$3,229 million (2009: US\$3,162 million). Loss for the period attributable to owners of the Company was US\$143 million compare to a loss of US\$19 million for the same period last year. Basic earnings per share for the period was a loss of US2 cents.

Global handset environment continues to be difficult during the first six months of 2010. With intensifying market share shifts among global OEM brands, as well as gray market players, the industry remains volatile and challenging for players in the handset supply chain. As the result, the confluence of lower pricing for the Group's products, changes in product mix, higher depreciation expenses and impairment losses affect the operating results of the Group.

With European economic condition remains uncertain, the Group remains cautious over the future handset market growth and global consumer market conditions for 2010. Management team will continue to monitor the resources allocation and cost control for our operation worldwide.

### **Liquidity and Financial Resources**

As at 30 June 2010, the Group had a cash balance of US\$1,111 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\$635 million over total assets of US\$5,744 million, was 11.06%.

Net cash used in operating activities for the six-month period ended 30 June 2010 was US\$225 million. Net cash used in investing activities for the six-month period ended 30 June 2010 was US\$174 million of which US\$164 million was the expenditures on property, plant and equipment related to the facilities in our major sites in PRC, US\$124 million increased in bank deposit, US\$124 million represented proceeds from disposal of property, plant and equipment and US\$10 million was increased in deposits for acquisition of property, plant and equipment.

Net cash from financing activities for the six-month period ended 30 June 2010 was US\$308 million, primarily due to net increase in bank loans of US\$272 million, proceeds from issue of new shares of US\$27 million and capital contribution from a non-controlling interest of a subsidiary of US\$9 million.

### **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 tenor 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 30 June 2010, the capital commitment of the Group was US\$54.2 million (2009: US\$76.5 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\$2.8 million (2009: US\$5.8 million) to secure general banking facilities granted to the Group.

### **Outlook**

Looking forward, the macro economic uncertainty continues to cloud transparency. Development of new customers and excelling in the smart phone market remain top priority in our business expansion. With industry consolidation continues, we believe the ability to broaden value-added offerings will be the key to industry players' competitiveness. Our main focus areas will be on cost control, resources consolidation and new customer business development.

### **Employees**

As at 30 June 2010, the Group had a total of 112,549 (2009: 118,702) employees. Total staff costs incurred during the period of six months ended 30 June 2010 amounted to US\$243 million (2009: US\$234 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 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 period of six months ended 30 June 2010.

## **AUDIT COMMITTEE**

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

The audit committee has reviewed the unaudited interim results of the Group for the period of six months ended 30 June 2010.

## **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 standard set out in the Model Code throughout the period of six months ended 30 June 2010.

## **CORPORATE GOVERNANCE**

The Company has complied with all the code provisions set out in the CCGP throughout the period of six months ended 30 June 2010 except for code provision A.2.1, which requires that the roles of chairman and chief executive officer should be separated 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 separated 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 great uncertainties with the world economic outlook 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 crucial to the continuation in implementation of business plan and formulation of business strategies, but also important 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.

## DISCLOSURE OF INFORMATION ON WEBSITES

The 2010 interim report of the Company containing all the information required by the Listing Rules will be dispatched to the shareholders of the Company and made available on the 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, 30 August 2010

*As at the date of this announcement, the executive directors of the Company are Messrs. Chin Wai Leung, Samuel, Chih Yu Yang and Dr. Lee Jer Sheng, the non-executive directors of the Company are Messrs. Chang Ban Ja, Jimmy and Lee Jin 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*