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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 2012**

The board of directors (the “Board”) of Foxconn International Holdings Limited (the “Company”, “we”, “our” or “us”) hereby announces the audited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the year ended 31 December 2012 together with comparative figures for the previous year as follows:

#### **CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

*For the year ended 31 December 2012*

	<i>NOTES</i>	<b>2012</b> <i>US\$'000</i>	<b>2011</b> <i>US\$'000</i>
Turnover	2	<b>5,239,800</b>	6,354,417
Cost of sales		<b>(5,240,425)</b>	(6,015,670)
Gross (loss) profit		<b>(625)</b>	338,747
Other income, gains and losses	3	<b>192,523</b>	272,329
Selling expenses		<b>(21,068)</b>	(26,979)
General and administrative expenses		<b>(214,978)</b>	(247,630)
Research and development expenses		<b>(173,380)</b>	(193,894)
Impairment loss recognised for property, plant and equipment	4	<b>(102,246)</b>	(6,571)
Interest expense on bank borrowings		<b>(11,442)</b>	(11,530)
Share of profits of associates		<b>1,228</b>	5,529
Share of loss of a jointly controlled entity		<b>(448)</b>	—
(Loss) profit before tax	5	<b>(330,436)</b>	130,001
Income tax credit (expense)	6	<b>14,369</b>	(54,869)
(Loss) profit for the year		<b>(316,067)</b>	75,132

	<i>NOTES</i>	<b>2012</b> <i>US\$'000</i>	2011 <i>US\$'000</i>
Other comprehensive income (expense)			
Exchange differences arising on translation of foreign operations		<b>10,013</b>	96,832
Share of translation reserve of associates		<b>643</b>	(760)
Share of translation reserve of a jointly controlled entity		<b>(16)</b>	–
Reserves released upon loss of control over a subsidiary		<b>(86)</b>	–
Reserves released upon disposals of subsidiaries		<b>–</b>	(35,984)
Reserves released upon partial disposal of interest in an associate		<b>(737)</b>	(251)
		<u><b>9,817</b></u>	<u>59,837</u>
Other comprehensive income for the year			
		<u><b>(306,250)</b></u>	<u>134,969</u>
Total comprehensive (expense) income for the year			
		<u><b>(306,250)</b></u>	<u>134,969</u>
(Loss) profit for the year attributable to:			
Owners of the Company		<b>(316,423)</b>	72,844
Non-controlling interests		<b>356</b>	2,288
		<u><b>(316,067)</b></u>	<u>75,132</u>
Total comprehensive (expense) income attributable to:			
Owners of the Company		<b>(306,266)</b>	133,397
Non-controlling interests		<b>16</b>	1,572
		<u><b>(306,250)</b></u>	<u>134,969</u>
(Loss) earnings per share	7		
Basic		<u><b>(US4.33 cents)</b></u>	<u>US1.01 cents</u>
Diluted		<u><b>(US4.33 cents)</b></u>	<u>US1.01 cents</u>

# **CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

*At 31 December 2012*

	<i>NOTES</i>	<b>2012</b> <i>US\$'000</i>	<b>2011</b> <i>US\$'000</i>
Non-current assets			
Property, plant and equipment		<b>1,094,471</b>	1,457,039
Prepaid lease payments		<b>49,378</b>	51,845
Available-for-sale investments		<b>85</b>	90
Interests in associates		<b>31,940</b>	45,481
Interest in a jointly controlled entity		<b>3,741</b>	–
Deferred tax assets		<b>41,127</b>	21,326
Deposit for acquisition of prepaid lease payments		<b>30,340</b>	30,264
Deposits for acquisition of property, plant and equipment		<b>37</b>	456
		<b>1,251,119</b>	1,606,501
Current assets			
Inventories		<b>347,918</b>	608,354
Trade and other receivables	9	<b>1,132,308</b>	1,411,700
Bank deposits		<b>440,133</b>	409,681
Bank balances and cash		<b>1,916,998</b>	1,512,461
		<b>3,837,357</b>	3,942,196
Assets classified as held for sale		<b>–</b>	62,923
		<b>3,837,357</b>	4,005,119
Current liabilities			
Trade and other payables	10	<b>1,203,455</b>	1,215,434
Bank borrowings		<b>214,901</b>	483,245
Provision		<b>30,211</b>	28,395
Tax payable		<b>70,781</b>	81,222
		<b>1,519,348</b>	1,808,296
Net current assets		<b>2,318,009</b>	2,196,823
Total assets less current liabilities		<b>3,569,128</b>	3,803,324

	<i>NOTES</i>	<b>2012</b> <i>US\$'000</i>	2011 <i>US\$'000</i>
Capital and reserves			
Share capital		<b>292,493</b>	288,987
Reserves		<b>3,223,304</b>	3,451,022
		<hr/>	<hr/>
Equity attributable to owners of the Company		<b>3,515,797</b>	3,740,009
Non-controlling interests		<b>10,758</b>	18,685
		<hr/>	<hr/>
Total equity		<b>3,526,555</b>	3,758,694
		<hr/>	<hr/>
Non-current liabilities			
Deferred tax liabilities		<b>9,090</b>	8,798
Deferred income		<b>33,483</b>	35,832
		<hr/>	<hr/>
		<b>42,573</b>	44,630
		<hr/>	<hr/>
		<b>3,569,128</b>	3,803,324
		<hr/> <hr/>	<hr/> <hr/>

Notes:

# 1. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (the “IFRSs”)

In the current year, the Group has applied the following amendments to International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board (the “IASB”).

Amendments to IFRS 7	Financial instruments: Disclosures – Transfers of financial assets; and
Amendments to IAS 12	Deferred tax: Recovery of underlying assets.

The application of the above amendments to IFRSs in the current year has had no material impact on the Group’s financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

## New and revised IFRSs in issue but not yet effective

The Group has not early applied the following new and revised IFRSs that have been issued but are not yet effective:

Amendments to IFRSs	Annual improvements to IFRSs 2009–2011 cycle <sup>1</sup>
Amendments to IFRS 7	Disclosures – Offsetting financial assets and financial liabilities <sup>1</sup>
Amendments to IFRS 9 and IFRS 7	Mandatory effective date of IFRS 9 and transition disclosures <sup>3</sup>
Amendments to IFRS 10, IFRS 11 and IFRS 12	Consolidated financial statements, Joint arrangements and disclosure of interests in other entities: Transition guidance <sup>1</sup>
Amendments to IFRS 10, IFRS 12 and IAS 27	Investment entities <sup>2</sup>
IFRS 9	Financial instruments <sup>3</sup>
IFRS 10	Consolidated financial statements <sup>1</sup>
IFRS 11	Joint arrangements <sup>1</sup>
IFRS 12	Disclosure of interests in other entities <sup>1</sup>
IFRS 13	Fair value measurement <sup>1</sup>
IAS 19 (as revised in 2011)	Employee benefits <sup>1</sup>
IAS 27 (as revised in 2011)	Separate financial statements <sup>1</sup>
IAS 28 (as revised in 2011)	Investments in associates and joint ventures <sup>1</sup>
Amendments to IAS 1	Presentation of items of other comprehensive income <sup>4</sup>
Amendments to IAS 32	Offsetting financial assets and financial liabilities <sup>2</sup>
IFRIC-INT 20	Stripping costs in the production phase of a surface mine <sup>1</sup>

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

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2014.

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2015.

<sup>4</sup> Effective for annual periods beginning on or after 1 July 2012.

## IFRS 9 Financial instruments

IFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9 are described as follows:

- All recognised financial assets that are within the scope of IAS 39 “Financial instruments: Recognition and measurement” are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities’ credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

IFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

The directors anticipate that IFRS 9 will be adopted in the Group’s consolidated financial statements for the annual period beginning 1 January 2015 and that the application of IFRS 9 may have impact on amounts reported in respect of the Group’s available-for-sale investment which are currently carried at cost less impairment. It is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

### **IFRS 13 Fair value measurement**

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 “Financial instruments: Disclosures” will be extended by IFRS 13 to cover all assets and liabilities within its scope.

IFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that IFRS 13 will be adopted in the Group’s consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new standard may result in more extensive disclosures in the consolidated financial statements.

### **IAS 19 (as revised in 2011) Employee benefits**

The amendments to IAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in the fair value of plan assets when they occur, and hence eliminate the ‘corridor approach’ permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. The amendments require all actuarial gains and losses to be recognised immediately through other comprehensive income in order for the net

pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus. Furthermore, the interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with a 'net-interest' amount, which is calculated by applying the discount rate to the net defined benefit liability or asset.

The amendments to IAS 19 are effective for annual periods beginning on or after 1 January 2013 and require retrospective application. The directors anticipate that the amendments to IAS 19 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the amendments to IAS 19 may not have material impact on amounts reported in respect of the Group's defined benefit plans but may result in more extensive disclosures in the consolidated financial statements.

### **Amendments to IAS 1 Presentation of items of other comprehensive income**

The amendments to IAS 1 "Presentation of items of other comprehensive income" introduce new terminology for the statement of comprehensive income. Under the amendments to IAS 1, a 'statement of comprehensive income' is renamed as a 'statement of profit or loss and other comprehensive income'. The amendments to IAS 1 require items of other comprehensive income to be grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax.

The amendments to IAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in future accounting periods.

The directors of the Company anticipate that the application of the other new and revised IFRSs will have no material impact on the results and the financial position of the Group, and the disclosure of the financial statements.

## **2. SEGMENT INFORMATION**

The Group determines its operating segments based on internal reports 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.

The Group's operations are organised into three operating segments based on the location of customers – Asia, Europe and America. No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

### **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 and reportable segments.

	<b>2012</b> <i>US\$'000</i>	2011 <i>US\$'000</i>
Segment revenue (external sales)		
Asia	<b>2,809,755</b>	3,396,263
Europe	<b>1,398,317</b>	1,490,499
America	<b>1,031,728</b>	1,467,655
	<hr/>	<hr/>
Total	<b>5,239,800</b>	6,354,417
	<hr/> <hr/>	<hr/> <hr/>
Segment profit (loss)		
Asia	<b>31,520</b>	232,444
Europe	<b>(9,215)</b>	62,257
America	<b>19,515</b>	83,185
	<hr/>	<hr/>
	<b>41,820</b>	377,886
Other income, gains and losses	<b>123,537</b>	204,487
General and administrative expenses	<b>(214,978)</b>	(247,630)
Research and development expenses	<b>(173,380)</b>	(193,894)
Impairment loss recognised for property, plant and equipment	<b>(96,773)</b>	(4,847)
Interest expense on bank borrowings	<b>(11,442)</b>	(11,530)
Share of profits of associates	<b>1,228</b>	5,529
Share of loss of a jointly controlled entity	<b>(448)</b>	–
	<hr/>	<hr/>
(Loss) profit before tax	<b>(330,436)</b>	130,001
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Majority of the Group's sales to Asian customers is attributed to the People's Republic of China ("PRC").

Segment profit (loss) represents the gross profit (loss) earned/made by each segment and the service and subcontracting income (included in other income) after deducting all selling expenses and certain impairment recognised for 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:

	<b>2012</b> <i>US\$'000</i>	2011 <i>US\$'000</i>
<b>ASSETS</b>		
Segment assets		
Allocated		
Asia	<b>596,058</b>	628,743
Europe	<b>303,160</b>	378,704
America	<b>373,693</b>	517,776
	<hr/>	<hr/>
Total	<b>1,272,911</b>	1,525,223
Unallocated		
Property, plant and equipment	<b>1,047,646</b>	1,396,286
Inventories	<b>306,980</b>	525,253
Cash and bank deposits	<b>2,125,106</b>	1,759,756
Others	<b>254,769</b>	333,329
Corporate assets	<b>81,064</b>	71,773
	<hr/>	<hr/>
Consolidated total assets	<b>5,088,476</b>	5,611,620
	<hr/>	<hr/>
<b>LIABILITIES</b>		
Segment liabilities		
Allocated		
Europe	<b>1,620</b>	11,524
America	<b>61,436</b>	51,220
	<hr/>	<hr/>
Total	<b>63,056</b>	62,744
Unallocated		
Trade and other payables	<b>1,139,412</b>	1,151,075
Others	<b>63,116</b>	63,308
Corporate liabilities	<b>296,337</b>	575,799
	<hr/>	<hr/>
Consolidated total liabilities	<b>1,561,921</b>	1,852,926
	<hr/>	<hr/>

For the purposes of monitoring segment performances and allocating resources among segments, trade receivables from Asia operations are allocated to Asia segment, while certain property, plant and equipment, inventories, trade and other receivables and cash and cash equivalents relating 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 the Europe and America operations.

### 3. OTHER INCOME, GAINS AND LOSSES

	2012 US\$'000	2011 US\$'000
An analysis of the Group's other income, gains and losses is as follows:		
Interest income from bank	57,802	38,969
Service and subcontracting income	68,986	67,842
Sales of materials and scraps	36,312	38,536
Repairs and modifications of moldings	34,802	27,185
Net foreign exchange (loss) gain	(3,410)	8,774
Gain on disposals of subsidiaries	–	73,303
Gain on partial disposal of an associate	4,098	4,609
Gain on loss of control over a subsidiary	19	–
Government subsidies ( <i>note</i> )	4,517	10,159
Rental income	5,913	5,757
Loss on disposal of property, plant and equipment	(19,128)	(6,109)
Others	2,612	3,304
	<u>192,523</u>	<u>272,329</u>

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

### 4. PROPERTY, PLANT AND EQUIPMENT

At 31 December 2012, directors of the Company appointed professional appraisers to perform appraisals on the Group's principal manufacturing assets for the purpose of determining whether the assets have been impaired for those groups of assets that have impairment indications, such as deteriorated market environment, and determined that a number of those assets were impaired. Impairment losses of US\$3,020,000, US\$99,121,000 and US\$105,000 (2011: US\$3,489,000, US\$2,971,000 and US\$111,000) have been recognised in respect of land and buildings, plant and machinery and fixtures and equipment respectively for the year. The recoverable amounts, being the higher of fair value less costs to sell or value-in-use, of the relevant assets have been determined by the Group's management. The recoverable amount is fair value less costs to sell which was assessed based on valuation performed by professional appraisers carried out at the end of the reporting period. The fair value measurement of freehold land was arrived at with reference to market evidence of transaction prices for land nearby and the fair value measurement of buildings, plant and machinery and fixtures and equipment was arrived at with reference to the depreciated replacement cost of the relevant assets.

## 5. (LOSS) PROFIT BEFORE TAX

	2012 US\$'000	2011 US\$'000
(Loss) profit before tax has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	214,551	244,439
Depreciation of investment properties	–	1,074
Amortisation of prepaid lease payments (included in general and administrative expenses)	<u>1,110</u>	<u>1,793</u>
Total depreciation and amortisation	<u>215,661</u>	<u>247,306</u>
Auditor's remuneration	834	1,024
Cost of inventories recognised as expense	5,209,659	6,007,659
Provision for warranty	7,012	6,819
(Reversal of allowance) allowance for doubtful debts, net	(4,140)	3,551
Write down of inventories (included in cost of sales)	23,754	1,192
Staff costs		
Directors' remuneration	1,085	3,741
Retirement benefit scheme contributions (excluding directors)	42,876	38,572
Other staff costs	344,267	427,863
Equity-settled share-based payments	<u>74,118</u>	<u>62,599</u>

## 6. INCOME TAX EXPENSE

	2012 US\$'000	2011 US\$'000
Current tax	22,598	37,437
(Over) underprovision in prior years	<u>(17,229)</u>	<u>2,340</u>
	<u>5,369</u>	<u>39,777</u>
Deferred tax		
– Current year	(19,735)	14,904
– Change in tax rates	<u>(3)</u>	<u>188</u>
	<u>(19,738)</u>	<u>15,092</u>
	<u>(14,369)</u>	<u>54,869</u>

No provision for Hong Kong Profits Tax has been made as the Group does not have assessable profit in Hong Kong.

Tax charge mainly consists of income tax in the PRC attributable to the assessable profits of the Company's subsidiaries established in the PRC. Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of certain PRC subsidiaries increased from 18% to 25% progressively over 5 years from 1 January 2008 onwards. The applicable tax rate for the current year was 25% (2011: 24%). Pursuant to the relevant laws and regulations in the PRC, two of the Company's PRC subsidiaries are exempted from PRC income tax for two years starting from 2008 and 2009, respectively, which was their first profit-making year, followed by a 50% reduction for the next three years.

One of the Company's subsidiaries, Foxconn Precision Component (Beijing) Co., Ltd. ("Foxconn Beijing") was awarded the Advanced-Technology Enterprise Certificate (the "Certificate") and entitled for a tax reduction from 25% to 15% for three years commencing from 1 January 2009 and can apply for renewal of the Certificate in every three years. During the year ended 31 December 2012, Foxconn Beijing successfully re-applied the concessionary tax rates from the financial years of 2008 to 2012 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 (稅覆調字[2012] 01號) from the State Administration of Taxation which approved Foxconn Beijing to use the concessionary tax rates of 18% for 2008, 20% for 2009, 22% for 2010, 24% for 2011 and 25% for 2012 and resume applying the Certificate's tax rate of 15% for 2013 and 2014. Foxconn Beijing was then refunded during the current year the difference of US\$14,741,000 for tax previously paid at the revised tax amount calculated on the basis of the concessionary tax rates and such amount was credited to profit or loss in the current year.

Except as described above, other PRC subsidiaries are subject to Enterprise Income Tax at 25% (2011: 25%).

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

## 7. (LOSS) EARNINGS PER SHARE

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

	2012 US\$'000	2011 US\$'000
<b>(Loss) earnings attributable to the owners of the Company</b>		
(Loss) earnings for the purposes of basic and diluted		
(loss) earnings per share	<u>(316,423)</u>	<u>72,844</u>
	<b>2012</b>	<b>2011</b>
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	<b>7,300,984,884</b>	7,204,771,998
Effect of dilutive potential ordinary shares relating to outstanding share options and share awards issued by the Company	<u>—</u>	<u>39,886,933</u>
Weighted average number of ordinary shares for the purpose of diluted (loss) earnings per share	<u><b>7,300,984,884</b></u>	<u>7,244,658,931</u>

The computation of diluted loss per share for the year ended 31 December 2012 did not assume the exercise of the Company's share options and share awards as the exercise of the outstanding share options and share awards would result in a decrease in the loss per share.

## 8. DIVIDEND

No dividend was paid, declared or proposed during 2012, nor has any dividend been proposed since the end of the reporting period (2011: nil).

## 9. TRADE AND OTHER RECEIVABLES

	2012 US\$'000	2011 US\$'000
Trade receivables	932,847	1,197,654
Less: allowance for doubtful debts	(48)	(4,193)
	<u>932,799</u>	<u>1,193,461</u>
Other taxes recoverables	120,346	163,343
Other receivables, deposits and prepayments	79,163	54,896
	<u>79,163</u>	<u>54,896</u>
Total trade and other receivables	<u>1,132,308</u>	<u>1,411,700</u>

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

The following is an aged analysis of trade receivables net of allowance for doubtful debts as presented based on the invoice dates at the end of the reporting period, which approximated the respective revenue recognition dates.

	2012 US\$'000	2011 US\$'000
0–90 days	908,499	1,177,063
91–180 days	15,948	8,247
181–360 days	4,793	3,772
Over 360 days	3,559	4,379
	<u>932,799</u>	<u>1,193,461</u>

## 10. TRADE AND OTHER PAYABLES

	2012 US\$'000	2011 US\$'000
Trade payables	870,617	880,956
Accruals and other payables	332,838	314,254
Deposit received	–	20,224
	<u>1,203,455</u>	<u>1,215,434</u>

The following is the aged analysis of trade payables as presented based on the invoice date at the end of the reporting period:

	2012 US\$'000	2011 US\$'000
0–90 days	841,797	863,521
91–180 days	24,630	6,434
181–360 days	503	6,901
Over 360 days	3,687	4,100
	<u>870,617</u>	<u>880,956</u>

## MANAGEMENT DISCUSSION AND ANALYSIS

### Review of Results and Operations

The year 2012 was an extremely difficult year for the Group. We saw major changes in the handset ecosystem triggered by the end market volatility mainly due to the austerity measures of European countries and global economic downturn, the emergence of new service/applications centric business models and the consolidation of the handset market. The market share of individual player was reshuffled and the market became even more competitive. It led to lower demands from some of the Group's major customers.

Despite our continual effort to try to mitigate the impact of the above market dynamics, the operation results of the Group concluded less than satisfactory. Revenue for the year was US\$5,240 million, which represents a change of US\$1,114 million, or 17.5% decrease, when compared with the prior year's revenue of US\$6,354 million.

The fierce market share struggles amongst global OEM brands and new entrants had made the global handset EMS market difficult and caused pricing pressure for the Group's products. Higher manufacturing overhead and increased cost pressure from rising labour costs and raw material prices affected our gross margin. Downturn of our business also generated asset impairment losses that hit our bottom line. However, we have successfully reduced selling and general and administrative expenses and divested less-utilized equipment and controlled capital expenditure so as to trim down some of our fixed costs and improve our capacity utilization.

Loss for the year 2012 attributable to owners of the Company was US\$316 million, when compared with the profit for the prior year of US\$73 million. Performance of sales segments were all affected and the hit to Europe sales segment was the greatest. Basic loss per share for the year 2012 was US4.33 cents. However, the magnitude of the Group's consolidated net loss for the second half of 2012 (amounting to US\$90 million) is significantly smaller than the magnitude of the Group's consolidated net loss for the first half of 2012 (amounting to US\$226 million), representing a shrinkage of about 60.2%, mainly due to the Group's continuous effort in enhancing its operation efficiency, cost rationalisation and resources optimisation and the Group's non-recurring asset disposal during the year.

In line with the right-sizing of our overseas sites and consolidation of our major PRC manufacturing capabilities, re-organization of our business operations into smaller and responsive teams to cope with volatile market conditions and serve customers better had continued.

Whilst our commitment to deploy meaningful resources in R&D remained, we managed to optimize our R&D resources. To cope with business changes and market volatility, we had to continue to curtail investments in some areas and keep our investment in design engineering resources for smart phones in Taiwan and the PRC. Such resources were highly appreciated by our existing and new customers as we have been able to tremendously enrich their respective product portfolios and shorten their products' availability to market thus enhancing such products' competitiveness. Our customers can now focus on product development, marketing,

sales and distribution whilst leaving us to take care of their product design and supply chain. Through such tactic, we have succeeded in developing smart phone ODM business with our existing and new customers. Given our unique competitive position in the ODM/EMS universe and our accumulated experience on product design and manufacturing, we believe that we still remain as the major manufacturing and supply chain partner to our existing and new customers. At the same time, our aggressive business development and customer diversification efforts, especially in the Asia area, remain a top priority to approach potential customers and penetrate new customers by providing one-stop-shop and end-to-end solutions from design, manufacturing to logistics with a view to developing a more comprehensive and extensive customer base.

### **Liquidity and Financial Resources**

As at 31 December 2012, the Group had a cash balance of US\$1,917 million. The cash balance is expected to be able to finance its operations. The Group's gearing ratio, expressed as a percentage of interest bearing external borrowings of US\$215 million (2011: US\$483 million) over total assets of US\$5,088 million (2011: US\$5,612 million), was 4.23% (2011: 8.61%). All the external borrowings were denominated in US Dollars. The Group borrowed according to real demand and there were no bank committed borrowing facilities and no seasonality of borrowing requirements. The outstanding interest bearing external borrowings were all at fixed rate ranging from 0.89% to 3.12% per annum with original maturity of one month to three months.

As at 31 December 2012, the Group's cash and cash equivalents were mainly held in US Dollars, RMB, New Taiwan Dollars and Euro.

Net cash from operating activities for the year ended 31 December 2012 was US\$602 million.

Net cash from investing activities for the year ended 31 December 2012 was US\$54 million, of which, mainly, US\$42 million represented the expenditures on property, plant and equipment related to the facilities in the Group's major sites in the PRC, US\$32 million represented placement in bank deposits, US\$59 million represented consideration received for disposals of assets classified as held for sale, US\$4 million represented the net cash outflow from loss of control over a subsidiary, US\$16 million represented deposits refunded in respect of assets classified as held for sale, US\$70 million represented proceeds on disposal of property, plant and equipment, US\$17 million represented net proceeds on partial disposal of an associate, and US\$2 million represented dividend income from an associate.

Net cash used in financing activities for the year ended 31 December 2012 was US\$265 million, primarily due to net decrease in bank loans of US\$268 million, proceeds of US\$14 million from the issue of shares to employees and purchase of additional interest in a subsidiary of US\$11 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 forward foreign currency contracts (usually with tenors less than 3 months) to hedge the currency risk resulting from its short-term bank loans (usually with tenors less than 3 months) denominated in foreign currencies. Also, the Group, from time to time, utilized a variety of forward foreign currency contracts to hedge its exposure to foreign currencies.

### **Capital Commitment**

As at 31 December 2012, the capital commitment of the Group was US\$27.2 million (2011: US\$67.1 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\$0.3 million (2011: US\$1.7 million) to secure general banking facilities granted to the Group.

### **Outlook**

Looking ahead into 2013, global economic conditions remain uncertain and weaker-than-expected macro situation may drag down global demand of handsets and continue to affect the handset ecosystem and our business and thus the management team remains cautious. Nevertheless, it is in general expected by the market that smart phone demand will continue its growth momentum in 2013 and our strategy is to continue investment in R&D capabilities, focus on existing and new customers as well as potential customers in the smart phone sector and further diversify our customer base through leveraging on our competence and capabilities in R&D and value-added offerings. At the same time, we will continue to take proactive actions on customer penetration, manufacturing automation, cost rationalization, resources sharing and optimization, site consolidation, know-how building and capital expenditure control so as to operate from a leaner base and remain price-competitive and agile. Such efforts have been reflected in the reduction of loss in the second half of 2012 and we strive to attain continuous improvement through the joint effort of the dedicated management team and staff.

### **Employees**

As at 31 December 2012, the Group had a total of 70,051 (2011: 98,868) employees. Total staff costs incurred during the year 2012 amounted to US\$462 million (2011: US\$533 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 (the “Listing Rules”).

The emoluments payable to the directors of the Company are determined by the Board from time to time with reference to the Company’s performance, their duties and responsibilities with the Company, their contributions to the Company and the prevailing market practice.



## **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from Tuesday, 28 May 2013 to Thursday, 30 May 2013, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be entitled to attend and vote at the Company's forthcoming annual general meeting to be held on Thursday, 30 May 2013, all transfers of shares of the Company accompanied by the relevant share certificates and properly completed and signed transfer forms must be lodged with the branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at Rooms 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration no later than 4:30 p.m. on Monday, 27 May 2013.

## **CORPORATE GOVERNANCE**

The Company has applied and complied with all the code provisions set out in the Code on Corporate Governance Practices (the "CCGP") during the period from 1 January 2012 to 31 March 2012, and the Corporate Governance Code (the "CG Code") during the period from 1 April 2012 to 31 December 2012, as set out in Appendix 14 to the Listing Rules.

The Company has adopted the Corporate Governance Compliance Manual (the "Manual") since 15 April 2010, as amended and supplemented by the Board on 27 June 2012 and 26 July 2012 respectively. The purpose of the Manual is to set out the corporate governance practices from time to time adopted by the Company and the compliance procedures that apply in specific areas, with the aim to providing an overview of the requirements of the CCGP or the CG Code (as the case may be) and the related rules set out in the Listing Rules and setting out certain guidelines for the implementation of corporate governance measures of the Company.

As an enhancement of the Company's corporate governance practices and in full compliance with the code provisions set out in the CCGP during the period from 1 January 2012 to 31 March 2012 and the CG Code during the period from 1 April 2012 to 31 December 2012, the roles of chairman and chief executive officer of the Company were separated with effect from 1 January 2012 and are now exercised by Mr. Tong Wen-hsin as the Chairman of the Company and Mr. Chih Yu Yang as the chief executive officer of the Company.

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

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (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 in respect of the Company's securities throughout the year ended 31 December 2012.

## **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 2012.

## AUDIT COMMITTEE

The Company has established an audit committee in accordance with the requirements of the Listing Rules, particularly the CCGP during the period from 1 January 2012 to 31 March 2012 and the CG Code during the period from 1 April 2012 to 31 December 2012. Its primary duties are to review 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 2012 and recommended the same to the Board for approval.

## DISCLOSURE OF INFORMATION ON WEBSITES

The annual report 2012 of the Company containing all the information required by the Listing Rules will be despatched 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  
**Tong Wen-hsin**  
Chairman

Hong Kong, 21 March 2013

*As at the date of this announcement, the executive directors of the Company are Messrs. Tong Wen-hsin and Chih Yu Yang and Dr. Lee Jer Sheng, the non-executive director of the Company is Mr. Lee Jin Ming and the independent non-executive directors of the Company are Messrs. Lau Siu Ki and Chen Fung Ming and Dr. Daniel Joseph Mehan.*

\* *for identification purposes only*