FOXCONN INTERNATIONAL HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2038

ANNUAL REPORT 2010

CONTENTS

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

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

NON-EXECUTIVE DIRECTORS

CHANG Ban Ja, Jimmy
GOU Hsiao Ling
LEE Jin Ming

INDEPENDENT NON–EXECUTIVE DIRECTORS

LAU Siu Ki
Daniel Joseph MEHAN
CHEN Fung Ming

COMPANY SECRETARY

TANG Wan Mui

REGISTERED OFFICE

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

HEAD OFFICE

Long He Industrial Park
An Ci District
Lang Fang City
He Bei Province
People's Republic of China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

AUDITORS

Deloitte Touche Tohmatsu

LEGAL ADVISOR

Norton Rose Hong Kong

PRINCIPAL BANKERS

Agricultural Bank of China
Bank of China
China CITIC Bank
China Construction Bank
China Merchants Bank
Chinatrust Commercial Bank
Citibank
Industrial and Commercial Bank of China
ING Bank N.V.
Standard Chartered Bank
Taipei Fubon Bank
The Hongkong and Shanghai Banking
Corporation Limited

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

STOCK CODE

2038

CHAIRMAN'S STATEMENT

Dear Shareholders,

The global crisis that created significant turmoil in the financial and commercial markets may be officially over, but its impact still lingers as demonstrated by factors such as high levels of unemployment, an extraordinary number of cases of home foreclosures, and limited capital expenditures. New players have disrupted the wireless handset market by redefining the mobile device through new operating systems as well as innovative ecosystems. As a result, in many markets smart phones have grown quickly from a niche product to an industry mainstream product. These market disruptions have severely impacted our customers which in turn has affected Foxconn International Holdings Limited (the "Company").

On behalf of our global management team, I hereby present to you the operating results of the Company for the financial year ended 31 December 2010.

Revenue for the year reached US$6,626 million, which represents a decrease of US$588 million, or 8.2% less than the prior year revenue of US$7,214 million. Net loss for the year attributable to equity holders of the Company was US$218 million, which represents a decline of 659% over the profit for prior year amount of US$39 million. Basic loss per share for the year 2010 was US3.06 cents.

In 2010, we continued to fine tune our capacity to align with market demand. We expanded our operations in Langfang, while reducing the volume produced in higher cost locations. In addition, we launched a global initiative to review our scale of utilization and to determine whether our fixed assets are deployed effectively and productively. As a result, where appropriate, we established action plans, and began negotiations to either dispose of assets or transfer assets to affiliated companies. In the short term, the relocation of businesses and disposal or revaluation of assets generates asset impairments that directly impact profitability. However, in the long term, we believe these actions will help us to achieve higher profitability by putting us in a better position to capture new business opportunities.

During the recent economic turmoil, numerous other companies in our industry drastically cut back on R&D and product development expenses to achieve short term gains in profitability. Despite impacts on our current profitability, we fortified our engineering and product development capabilities by continuing to invest in R&D. I believe our large investments in R&D, especially with regards to smart phones, position us well to capture the explosive growth of new opportunities in the wireless handset market and to achieve long-term profitability.

CHAIRMAN'S STATEMENT

It is well recognized that market positions in the wireless handset market are fragile and rapidly change as a result of short product life cycles. Therefore, a key strategy for 2010 was to expand our customer base. As we enter into 2011, we will have a broader and more diversified customer base. I am pleased that the Company is serving many of the best customers in the world.

Several factors challenged our business in 2010 and disappointing financial results have created a deep sense of urgency for the management team and across the Company. We have taken drastic measures to better cope with market dynamics and barring any extraordinary event, I believe we are well positioned to return to profitability in 2011.

On behalf of the management team, I would like to take to express our gratitude to those who have supported and encouraged us in 2010, despite a difficult and challenging environment, including but not limited to: the members of the board of directors of the Company for their valuable input and critical analysis; our employees for their hard work; and the families of our employees for their patience and sacrifices.

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

With best regards,

Chin Wai Leung, Samuel
Chairman & Chief Executive Officer

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF RESULTS AND OPERATIONS

The year 2010 was an extremely difficult year for us. We saw major changes in the handset ecosystem triggered by entry of new players, introduction of new software and applications, as well as emergence of new business models. Market dynamics shifted drastically and created tough challenges for some industry players as well as the Company.

Despite our continual efforts to further diversify customer base and sources of revenue, the operation results for the Company concluded less than satisfaction. Revenue for the year 2010 was US$6,626 million, which represents a change of US$588 million, or 8.2% less than the prior year revenue of US$7,214 million.

The intensifying market share struggles among global OEM brands had made the global handset EMS market difficult and caused pricing pressure for the group's products. Higher manufacturing overhead resulting primarily from lower utilization of facilities and relocation, changes in product mix, impairment losses, continued long-term investment in research and development activities as well as higher consolidated income tax also affected our financial performance. Loss for the year 2010 attributable to equity holders of the Company was US$218 million, representing a decline of 659% over the profit for prior year amount of US$39 million. Basic loss per share for the year 2010 were US3.06 cents.

In 2010, we continued to execute our capacity re-location programs, which commenced in the latter part of 2008. These efforts were set out to right size the cost and scale of our operations in order to cope with the challenges in our business. In the People's Republic of China ("PRC"), we continued to focus on expansion in Langfang, Beijing and Tianjin, while reducing our exposure in the higher cost areas. We initiated discussions with Hon Hai group companies to transfer some less utilized assets to satisfy their growing demand and trim down our fixed costs. Outside of the PRC, we also reviewed our local business opportunities and constantly looked to improve profitability of our various sites. Some of these cost streamlining actions took longer than we had expected and thus created unfavorable impact to our financial performance. Relocation and downturn of our business also generated asset impairments that hit our bottom line.

While the cost optimization efforts persisted, we did not slow down our R&D investments. Our investments in design engineering resources for smart phones started to see good progress in 2010. It is our belief that we have built respectable capabilities in this area which will help our customers tremendously in enriching their product portfolio and shortening their products' time to market. Smart phones have generated strong growth momentum in the market and we believe our investments in this area will prove to be vital for our future.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2010, we had a cash balance of US$1,356 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$862 million over total assets of US$6,017 million, was 14.33%. External borrowings were increased in 2010 as we intended to borrow in weaker currency with shorter tenors and tried to accumulate stronger currencies to mitigate foreign currency risks. In 2010, most of the borrowings were denominated in US Dollars and some of them were denominated in Euro in overseas 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 0.67% to 1.89% per annum with original maturity of three to six months.

Net cash used in operating activities for the year ended 31 December 2010 was US$107 million.

Net cash used in investing activities for the year ended 31 December 2010 was US$317 million, of which, mainly, US$254 million was the expenditures on property, plant and equipment related to the facilities in our major sites in the PRC, US$99 million increased in bank deposit, US$53 million represented proceeds from disposal of property, plant and equipment, US$25 million represented increase in deposits for acquisition of property, plant and equipment and US$8 million represented government subsidies received.

Net cash generated from financing activities for the year ended 31 December 2010 was US$542 million, primarily due to net increase in bank loans of US$507 million, proceeds of US$26 million from issue of shares under the share option scheme and the share scheme and US$9 million for capital contribution from non-controlling interests of a subsidiary.

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 2010, the capital commitment of the group was US$102.2 million (2009: US$76.5 million). Usually, the capital commitment will be funded by cash generated from operations.

MANAGEMENT DISCUSSION AND ANALYSIS

PLEDGE OF ASSETS

A subsidiary of the Company has pledged its corporate assets of approximately US$3.0 million (2009: US$ 5.8 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 the PRC 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 2010.

OUTLOOK

Looking ahead to 2011, our alarming setback in 2010 has created a sense of urgency in the organization. We need to change as the market is changing and our customers are changing. We need to take decisive actions to conclude our capacity re-location, optimize our cost structure and return to profitability. As part of the efforts for resources consolidation, we have discussed with Hon Hai group to sell our Taiyuan legal entity and its assets to them. Subject to independent shareholders' approval and completion of the transaction, we believe it will help us in reducing our fixed costs for operation while allowing Hon Hai to further expand in the Taiyuan area. We need to serve our existing customers better and approach more new customers. As smart phones become the mainstream of the market, we believe our end-to-end solutions from design to manufacturing and services put us in a leading position in the market place.

EMPLOYEES

As at 31 December 2010, the group had a total of 126,687 (2009: 118,702) employees. Total staff costs incurred during the year 2010 amounted to US$565 million (2009: US$485 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 emolument payable to the directors of the Company is determined by the board of directors of the Company from time to time with reference to the prevailing market practice, their duties and responsibilities with the Company and their contributions to the Company.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

CHIN Wai Leung, Samuel, aged 60, joined the Company as the Chairman and Chief Executive Officer in July 2003. Mr. Chin joined Hon Hai Precision Industry Co. Ltd. ("Hon Hai"), a company listed on the Taiwan Stock Exchange Corporation and the ultimate controlling shareholder of the Company, and its subsidiaries ("Hon Hai Group") in 2000, and had been one of the principal managers responsible for the handset manufacturing services business of the Hon Hai Group since July 2000, which is now wholly-owned and operated by the Company. He is also a director of Success World Holdings Limited, Foxconn Oy and FIH Co., Ltd., being subsidiaries of the Company. Before joining the Company, Mr. Chin held senior executive positions in EFA Corporation, Atari Corporation and Commodore Electronics Limited with responsibilities ranging from sales and marketing, global procurement, manufacturing, pricing, purchasing, contract negotiation, accounting and finance. With over 26 years of marketing, sales and operational experience in the global computer and electronics industries, he has worked in an international environment. Mr. Chin was awarded a Juris Doctor degree from the University of Pennsylvania Law School in 1976 and a Bachelor of Science degree in Economics from Wharton School, University of Pennsylvania, US in 1973.

CHIH Yu Yang, aged 52, joined the Company as an executive Director in August 2009. Mr. Chih is the chairman and chief executive officer of Chi Mei Communication Systems, Inc. ("CMCS") in Taiwan, which is the primary mobile handset design services arm of the group, a subsidiary of the Company. Mr. Chih joined the group in 2005 when the group acquired CMCS. Prior to that, Mr. Chih was the founder of CMCS since its establishment in 2001. He has 31 years of extensive experience in the communication industries. From 1997 to 2001, Mr. Chih was the vice president and general manager of Communication B.U. in BenQ (formerly Acer Communication and Multimedia, Inc.) where he was responsible for the BenQ's cellular phone business. Prior to that, he held various engineering and managerial positions in companies including ITT Corporation, GTE Corporation and Rockwell Semiconductor Systems. Mr. Chih obtained a Bachelor of Science degree in Electrical Engineering from National Tsing Hwa University in Taiwan in 1980.

Dr. LEE Jer Sheng, aged 47, joined the Company as an executive Director in June 2010. Dr. Lee joined the Company as director of mechanical production in June 2004. Before joining the Company, he had worked for Hon Hai since February 1998 and had been one of the principal managers responsible for the handset manufacturing services business of the Hon Hai Group since January 2002. Dr. Lee has almost 19 years of mechanical engineering and production management experience. He is also a director of various principal operating subsidiaries of the Company, namely, Foxconn India Private Limited, Shenzhen Futaihong Precision Industrial Co., Ltd. and Foxconn Precision Component (Beijing) Co., Ltd.. Prior to that, Dr. Lee held various positions in automotive industry in Taiwan. Dr. Lee received a B.S. in Aerospace Engineering from National Cheng Kung University, Taiwan in 1986 and a Ph.D in Mechanical Engineering and Applied Mechanics from the University of Michigan (Ann Arbor), US in 1993.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

CHANG Ban Ja, Jimmy, aged 67, joined the Company as a non-executive Director in December 2004. Mr. Chang is the executive vice president of Hon Hai following his assignments as the president of Foxconn Corporation in the US and managing director of Foxconn Singapore. Mr. Chang has been with Hon Hai since September 1989. He also spent over 35 years in internal audit, treasury, international investment analysis, controllership, sales and marketing functions. He had previously been associated with Arthur Young, Kaiser Aluminum & Chemical Corporation, Memorex and Atari Corporation. Mr. Chang obtained a Master of Business Administration degree from Santa Clara University, California, US in 1970.

GOU Hsiao Ling, aged 32, joined the Company as a non-executive Director in December 2004. Prior to taking up the directorship with the Company, Ms. Gou worked for Hon Hai as a tax manager since September 2001. She is also the chairman of Yonglin Foundation. Prior to joining the Company, she was previously also a tax consultant at PricewaterhouseCoopers in Taipei, Taiwan and an analyst with Goldman Sachs International Limited, and has over 7 years of experience in the finance industry. Ms. Gou received a Bachelor's degree in Economics from the University of California, Berkeley, US in 2001. Ms. Gou is the daughter of Mr. Gou Tai Ming, the founder, is the present chairman of the board of directors and president of Hon Hai.

LEE Jin Ming, aged 58, joined the Company as a non-executive Director in December 2004. Prior to joining Hon Hai in October 1997, Mr. Lee was a senior financial manager with Philips and Chase Manhattan Bank. He is a director of Foxconn (Far East) Limited. Mr. Lee has over 31 years of banking, corporate finance and accounting related international financial experience. Mr. Lee obtained a Bachelor of Arts degree from the National Chengchi University, Taiwan in 1974.

LAU Siu Ki, aged 52, joined the Company as an independent non-executive Director in December 2004. He has about 30 years of experience in corporate finance, financial advisory and management, accounting and auditing, Mr. Lau is currently a financial advisory consultant running his own management consultancy firm, Hin Yan Consultants Limited. Previously, Mr. Lau worked at Ernst & Young for over 15 years. He graduated from Hong Kong Polytechnic in 1981. Mr. Lau is a member of both the Association of Chartered Certified Accountants ("ACCA") and Hong Kong Institute of Certified Public Accountants. Mr. Lau is now a member of the World Council of ACCA. He has served on the executive committee of the Hong Kong branch of ACCA ("ACCA Hong Kong") since 1995 and was the chairman of ACCA Hong Kong in 2000/2001. During these years, he has helped raising the profile of ACCA. Mr. Lau also serves as an independent non-executive director in Binhai Investment Company Limited, Carry Wealth Holdings Limited, COL Capital Limited, Comba Telecom Systems Holdings Limited, Embry Holdings Limited, Samson Holding Ltd. and TCL Communication Technology Holdings Limited.

Dr. Daniel Joseph MEHAN, aged 66, joined the Company as an independent non-executive Director in July 2007. Dr. Mehan was the chief information officer of the Federal Aviation Administration from 1999 to 2005. Prior to that, Dr. Mehan was senior level executive who held a variety of leadership positions at AT&T for over 20 years, including international vice president and international chief information officer. Dr. Mehan has strong background in information systems, cyber security, business management, marketing initiatives and technology development. Dr. Mehan received both his Ph.D. in Operations Research and Master of Science in Systems Engineering from University of Pennsylvania, US.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

CHEN Fung Ming, aged 64, joined the Company as an independent non-executive Director in November 2008. Mr. Chen is the chairman of Prolight Opto Technology Corp. in Taiwan which provides high power LED packaging for lighting application. From 2006 to 2008, Mr. Chen was a director of Beyond Innovation Technology Corp. in Taiwan specialising in IC design for video application. He has extensive experience in the electronics and lighting industries. Mr. Chen obtained a Bachelor of Science degree in Physics from Fu Jen University in Taiwan in 1970. He also received from the University of Wisconsin, Madison, US, a Master of Science degree in Physics and a Master of Science degree in Computer Science in 1974.

SENIOR MANAGEMENT

CHEN Hsu Tang, Tom, aged 46, joined the Company as vice president, business development in July 2003, and had been one of the principal managers responsible for the handset manufacturing services business of the Hon Hai Group since October 2001 when he became a vice president of Hon Hai. He is also a director of principal operating subsidiaries of the Company, namely Foxconn Mexico Precision Industry, Co. SA de CV. and Honxun Electrical Industry (Hangzhou) Co., Ltd.. Mr. Chen joined Hon Hai in December 2000. Mr. Chen has over 21 years of experience in engineering, sales and general management in the telecommunications and components industries. Previously, Mr. Chen was the director of supply chain at Axxion Group Corporation in Texas, US. He was also the founder and chief executive officer of Jefferson Rubber Technologies in Texas, US. He had also worked at International Business Machines Corporation in New York as a telecommunications engineer. Mr. Chen obtained a Master of Science degree in Industrial Engineering from Columbia University, NY, US in 1991.

CHAO Shan Ping, Henry, aged 54, joined the Company as director of electronic parts production and assembly in June 2004. Before joining the Company, Mr. Chao was with Hon Hai since September 1996 and was responsible for SMT and computer motherboard manufacturing processes and had been one of the principal managers responsible for the handset manufacturing services business of the Hon Hai Group since March 2001. He is also a director of principal operating subsidiaries of the Company, namely Honxun Electrical Industry (Hangzhou) Co., Ltd. and FIH Technology Korea Ltd.. Prior to that, Mr. Chao held various production and engineering management positions with Wang Computer and Delta Electronics. He has over 26 years of experience in engineering management. Mr. Chao received a Bachelor's degree in Industrial Engineering from National Taipei University of Technology, Taiwan in 1978.

KO Ming Chung, aged 48, joined the Company as director of mechanical production in June 2004. Before joining the Company, he was with Hon Hai since July 1992 and had been one of the principal managers responsible for the handset manufacturing services business of the Hon Hai Group since July 2000. Mr. Ko has almost to 26 years of mechanical engineering and production management experience. Prior to that, Mr. Ko held various positions in mechanical engineering and production with Philips and Matsushita Electric (Taiwan) Co., Ltd.. Mr. Ko received a Master of Science degree in Mechanical Engineering from National Taiwan University, Taiwan in 1992.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

Michael SMITH, aged 46, joined the Company as vice president, Mexico operations in May 2004. Mr. Smith has over 19 years of experience in the high technology electronics manufacturing industry. Prior to joining the Company, he worked at Motorola, Inc. for over 11 years in various manufacturing leadership roles. Currently, Mr. Smith is a member of senior management team as vice president of the Company's service division. Mr. Smith obtained a Master of Science degree in Electrical Engineering from the University of South Florida in Tampa, Florida, US in 1991.

Timo HARJU, aged 57, joined the Company as executive vice president and chief financial officer, European operations in October 2003, and had been one of the principal managers responsible for the handset manufacturing services business of the Hon Hai Group. Mr. Harju has over 26 years of executive experience in global multinational businesses in the areas of general and financial management, acquisition and integration management and had held directorships with several international companies. Before joining the Company, he served as president and chief executive officer of Foxconn Oy in the mobile telecommunications industry. Prior to that, he was vice president and regional director of Asia and South America of Ahlstrom Group, and was responsible for one of the Ahlstrom Group's global businesses for those regions. Mr. Harju had also served as vice president and chief financial officer of one of the global business groups of Ahlstrom Group being responsible for financial, strategic planning and information technology functions. Mr. Harju received a Master of Science degree from the University of Technology of Lappeenranta, Finland in 1981 and he also completed the International Executive Program at INSEAD, France in 1999.

HSU Chung Chang, Jonathan, aged 49, joined the Company as treasurer in June 2004, and had been one of the principal managers responsible for the handset manufacturing services business of the Hon Hai Group since October 2003. Mr. Hsu has over 21 years of experience working in finance related areas and more than 12 years of experience in the area of electronic industry finance. Before joining the Company, he worked at Macronix International Co., Ltd. as treasury manager for about 5 years. Prior to that, he worked at Nikko Securities Co., Ltd. and served as assistant vice president of corporate finance for 5 years. Mr. Hsu obtained a Master of Business Administration degree in Finance from George Washington University, US in 1993.

TONG Wen Hsin, Vincent, aged 45, joined the Company as director of investments and investor relations in July 2004. Mr. Tong has over 19 years of experience in the investment banking, finance and information technology fields. Before joining the Company, Mr. Tong worked at ABN AMRO Rothschild, where he was a director of the equity capital markets department, responsible for the underwriting of various equity and equity-linked issues of Asian corporate clients. Prior to that, he worked in the equity capital markets department of Jardine Fleming and Robert Fleming in Hong Kong and London, as well as in the marketing and sales departments of International Business Machines Corporation in Taiwan. Mr. Tong holds a MBA degree from London Business School, United Kingdom, which he obtained in 1995.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

TAM Kam Wah, Danny, aged 47, joined the Company as senior manager of financial control in October 2004. Mr. Tam is the chief accounting officer of the Company. He is responsible for accounting and financial reporting, taxation, internal control and performance management of the group. Mr. Tam has over 23 years of experience in accounting and finance in Hong Kong listed companies and multinational companies. Prior to joining the Company, he worked as a financial controller for ITT Industries and Hutchison Harbour Ring Ltd., and he also worked as an accounting manager for Coates Brothers (HK) Co. Ltd.. Mr. Tam is a fellow of the Association of Chartered Certified Accountants, an associate of Chartered Institute of Management Accountants and an associate of Hong Kong Institute of Certified Public Accountants. Mr. Tam received a BBA from Chinese University of Hong Kong in 1988, a Master of Applied Finance from Macquarie University, Australia in 1994, a Master of Business Administration degree from University of Ottawa, Canada in 1996, and a Master of Arts degree in Information System and a Master of Arts degree in Electronic Business from City University of Hong Kong in 1999 and 2002 respectively. Mr. Tam also received a Master of Accounting from Jinan University in 2005.

Dr. PAO Yi Hsin, aged 55, joined the Company as vice president in July 2007. Dr. Pao has extensive experience in quality control on production and engineering. Prior to joining the Company, he worked as a general manager of quality control and engineering for Toyota Motor Manufacturing, North America. Dr. Pao previously also worked at Ford Motor Company in Dearborn, Michigan US as a plant manager and director of global core quality. Dr. Pao received a B.S. in Marine Engineering from National Taiwan Ocean University in 1978, a M.S. in Mechanical Engineering from University of Oklahoma in 1982, a Ph.D. in Applied Mechanics from The Ohio State University in 1988 and a Master of Business Administration degree from Michigan State University, US in 1998. Dr. Pao also authored a book on SMT assemblies reliability techniques published by McGraw Hill.

REPORT OF THE DIRECTORS

The board of directors (the "Board") of the Company is pleased to announce this annual report, particularly the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2010.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of the principal subsidiaries are set out in the financial statements on pages 102 to 104. The Group is a vertically integrated manufacturing services provider for handset industry worldwide. It provides a full range of manufacturing services to its customers in connection with the production of handsets.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2010 are set out in the financial statements on pages 28 to 29. The Board does not recommend the payment of any dividends in respect of the year ended 31 December 2010.

RESERVES

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

DISTRIBUTABLE RESERVES

As at 31 December 2010, the Company's reserves available for distribution amounted to US$1,374,899,000.

SHARE CAPITAL

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

FINANCIAL SUMMARY

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

PROPERTY, PLANT AND EQUIPMENT, AND INVESTMENT PROPERTIES

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

BANK LOANS

Details of bank loans are set out in note 24 to the financial statements.

REPORT OF THE DIRECTORS

DIRECTORS

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

Executive Directors

CHIN Wai Leung, Samuel
CHIH Yu Yang
LEE Jer Sheng (appointed on 8 June 2010)

Non-executive Directors

CHANG Ban Ja, Jimmy
GOU Hsiao Ling
LEE Jin Ming
LU Fang Ming (resigned on 8 June 2010)

Independent Non-executive Directors

LAU Siu Ki
Daniel Joseph MEHAN
CHEN Fung Ming

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

Pursuant to article 112 of the articles of association of the Company (the "Articles"), one-third of the directors for the time being (or, if their number is not three or a multiple of three, then the number nearest to, but not exceeding one-third) shall retire from office by rotation at each annual general meeting of the Company provided that every director shall be subject to retirement by rotation at least once every three years. In accordance with article 112 of the Articles, Messrs. Lau Siu Ki, Chen Fung Ming and Daniel Joseph Mehan will retire from office by rotation at the Company's forthcoming annual general meeting and, being eligible, will offer themselves for re-election at such meeting.

SERVICE CONTRACTS

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

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN CONTRACTS

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

DISCLOSURE OF INTERESTS

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

As at 31 December 2010, the interests and short positions, if any, of each director and chief executive of the Company in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the directors and chief executives were taken or deemed to have under such provisions of the SFO) or which were required to be and are recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or as otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") adopted by the Company were as follows:

Name of director	Name of corporation	Capacity/ Nature of interest	Total number of ordinary shares	Approximate percentage of interest in the Company/ associated corporation
Chin Wai Leung, Samuel	Company	Personal Interest	16,749,475	0.2338%
	Hon Hai	Personal Interest	719,592	0.0074%
Chih Yu Yang	Company	Personal Interest	2,659,610	0.0371%
	Hon Hai	Personal Interest	138,594	0.0014%
Lee Jer Sheng *(Note 1)*	Company	Personal Interest	3,292,932	0.0460%
		Jointly held Interest	100,000	0.0014%
Chang Ban Ja, Jimmy	Hon Hai	Personal Interest	2,004,712	0.0208%
Lee Jin Ming *(Note 2)*	Hon Hai	Personal Interest	444,276	0.0046%
		Through a trust	1,138,520	0.0118%

REPORT OF THE DIRECTORS

Notes:

1. 3,292,932 shares in which includes 3,024,734 shares which are issuable upon exercise of share options granted under the share option scheme of the Company. 100,000 shares are beneficially and jointly owned by Mr. Lee Jer Sheng and Ms. Ting Kuei Feng, the spouse of Mr. Lee Jer Sheng. Accordingly, Mr. Lee Jer Sheng is deemed to be interested in 100,000 shares which are jointly held by him and his spouse for the purposes of the SFO.

2. 1,138,520 shares are held by a trust of which Mr. Lee Jin Ming is the beneficiary. Accordingly, Mr. Lee Jin Ming is deemed to be interested in 1,138,520 shares which are held by the trust for the purposes of the SFO.

Save as disclosed above, none of the directors or chief executives of the Company had, as at 31 December 2010, any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the directors and chief executives were taken or deemed to have under such provisions of the SFO) or which were required to be and are recorded in the register required to be kept by the Company under Section 352 of the SFO or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

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

So far as is known to any director of the Company, as at 31 December 2010, shareholder (other than the directors or chief executives of the Company) who had interests and short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name of shareholder	Capacity/ Nature of interest	Total number of ordinary shares	Approximate percentage of interest in the Company
Foxconn (Far East) Limited	Beneficial owner	5,081,034,525	70.92%
Hon Hai *(Note)*	Interest of a controlled corporation	5,081,034,525	70.92%

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

Save as disclosed above, as at 31 December 2010, the Company had not been notified by any persons (other than the directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would be required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

REPORT OF THE DIRECTORS

OTHER INFORMATION

The emoluments of the directors of the Company are set out in note 9 to the financial statements.

CONNECTED TRANSACTION

On 18 March 2011, Grand Champion Trading Limited ("Grand Champion") and Prime Rich Holdings Limited ("Prime Rich") entered into an equity transfer agreement pursuant to which Grand Champion has agreed to sell and Prime Rich has agreed to purchase the entire equity interest in Foxconn Precision Electronics (Taiyuan) Co., Ltd. ("Foxconn Precision") at a cash consideration of RMB463,274,241 which is determined by reference to the net asset value of Foxconn Precision as at 31 December 2010 of RMB409,352,368 and adjusted for the revaluation surplus of RMB53,921,873. The final consideration is subject to the net asset value of Foxconn Precision as at the completion date and further adjustments pursuant to the terms of the equity transfer agreement. The disposal is subject to obtaining the relevant approvals from the Investment Commission of the Ministry of Economic Affairs of Taiwan and the Department of Commerce, Shanxi Province, PRC.

Grand Champion is an indirect wholly-owned subsidiary of the Company. Prime Rich is an indirect wholly-owned subsidiary of Hon Hai. Hon Hai is the ultimate controlling shareholder of the Company. Accordingly, Prime Rich, as an indirect wholly-owned subsidiary of Hon Hai, is a connected person of the Company.

The principal reason for the disposal of the entire equity interest in Foxconn Precision is that the Company wishes to continue to consolidate its operation and production plants in the PRC and will therefore concentrate on the development and running of the production plants in Langfang, Beijing and Tianjin, PRC. As a result, the Company, in the intermediate term, has no need of the land and production plant at Taiyuan, PRC, whilst Hon Hai at this material time has an immediate need for factory space to expand its production capacity in Taiyuan, PRC.

CONTINUING CONNECTED TRANSACTIONS

This refers to equipment sales transaction sold by the Group to the Hon Hai Group. The Company and Hon Hai entered into the framework equipment sale agreement pursuant to which the Group has agreed to from time to time sell equipment to the Hon Hai Group for a term up to 31 December 2010.

From time to time certain equipment of the Group no longer meets the production needs of the Group which may be as a result of a number of factors, such as new product specifications required by customers, capacity planning and new production arrangements. However, such equipment may be useful to the Hon Hai Group for its businesses. The Company considered that the possible amount of the equipment sales transaction for the whole year 2010 may exceed the annual cap for such transaction. Accordingly, the Company revised the annual cap of the equipment sales transaction for the year ending 31 December 2010 from US$46 million to US$80 million on 30 September 2010.

On 19 November 2010, the Group and the Hon Hai Group entered into supplemental agreements to extend the term of the continuing connected transactions to 31 December 2013 and set new annual caps for the continuing connected transactions for the three years ending 31 December 2013.

REPORT OF THE DIRECTORS

Product Sales Transaction

This refers to the sale of certain products to the Hon Hai Group by the Group. The Company considered it in its best interests to generate more income by carrying out product sales to the Hon Hai Group in response to their needs from time to time, provided that the Hon Hai Group purchases from the Group at prices comparable to market prices and/or which are considered to be fair and reasonable to the Company.

Lease Expense Transaction

This refers to the properties leased by the Hon Hai Group to the Group. A part of the Group's operations in the PRC is located in Hon Hai's industrial park in Shenzhen, PRC, in view of the benefits of locating close to the members of the Hon Hai Group which possesses leading capabilities and expertise amid the convergence trend within the 3C industries. The physical proximity can lead to additional savings and efficiency to the Group if the Group's customers select these companies of the Hon Hai Group as the vendors approved by the customers of the Group.

General Services Expense Transaction

This refers to the general administrative, support, utility and other services provided by the Hon Hai Group to the Group. Certain production facilities of the Group are located at premises owned and managed by the Hon Hai Group and leased to the Group under the lease expense transaction. Within such premises, the Hon Hai Group provides a number of general administrative, support and utility services to all tenants, including the Group, which are necessary for the tenants to carry out their operations in such locations. The Company considered it more cost effective for the Group to share some other services provided by the Hon Hai Group, such as product testing, specialist inspection and information technology and communication services.

Sub-contracting Income Transaction

This refers to the sub-contracting services provided to the Hon Hai Group by the Group. The Company considered it in its best interests to generate more income by carrying out the sub-contracting income transaction as long as the services are provided at prices that are fair and reasonable pursuant to the relevant agreement of the transaction.

Equipment Sale and Purchase Transaction

This refers to equipment purchased by the Group from and sold by the Group to the Hon Hai Group.

From time to time certain equipment of the Group no longer meets the production needs of the Group which may be as a result of a number of factors, such as new product specifications required by customers, capacity planning and new production arrangements. However, such equipment may be useful to the Hon Hai Group for its businesses.

REPORT OF THE DIRECTORS

The Hon Hai Group is able to customise standard industry equipment to varying degrees to better suit the production processes of the Company. Purchasing equipment from the Hon Hai Group helps accelerating delivery time of the equipment to the Group. The Group in the past also purchased used equipment that was in good condition from the Hon Hai Group at the book value of the equipment in Hon Hai's accounts. It is typically also more convenient for the Group to obtain the required maintenance services for the customised equipment from the Hon Hai Group.

Materials and Components Supply Transaction

This refers to the supply of materials and components by the Hon Hai Group to the Group. Hon Hai is the leading player in the 3C manufacturing services industry. Under the convergence trend of the 3C industries, an increasing number of types of materials and components manufactured by the Hon Hai Group are used for the manufacture of handsets. The Company believed that it is an important competitive advantage of the Group in the handset manufacturing service industry that the Group together with the members of the Hon Hai Group can provide a range of vertically integrated manufacturing services to the customers. Furthermore, a number of the members of the Hon Hai Group are vendors approved by the customers of the Group. The Group is required by its customers to purchase many of the key materials and components from the vendors approved by the customers of the Group.

Lease Income Transaction

This refers to the properties leased by the Group to the Hon Hai Group. The Group has built its own manufacturing premises and there may be surplus space from time to time. The Company considered it in its best interests to lease out such surplus space and generate additional income for the Group at prices comparable to the market and/or above the costs attributable to the leased premises pursuant to the relevant agreement in respect of the lease income transaction.

General Services Income Transaction

This refers to the general administrative, support, utility and other services provided by the Group to the Hon Hai Group. The Group will from time to time lease premises owned by the Group to the Hon Hai Group under the lease income transaction. Within such premises, the Group will have its operation together with its general administrative, support and utility services. The Company considered it efficient and in the interest of the Company to generate additional income by extending its existing general administrative, support and utility services to the Hon Hai Group that operates on such premises or as requested by the Hon Hai Group from time to time at a fair and reasonable price determined based on the relevant agreement of the general services income transaction.

Consolidated Services and Sub-contracting Expense Transaction

This refers to the research and development services, design services, repair services and sub-contracting services provided by the Hon Hai Group to the Group. The Company considered that the services provided by the Hon Hai Group under the consolidated services and sub-contracting expense transaction as requested by the Group can enhance the Group's capacity in its handset manufacturing business, provide the Group with greater flexibility and allow it carrying on its business more efficiently.

REPORT OF THE DIRECTORS

The continuing connected transactions are as follows:

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

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

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

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

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

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

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

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

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

Notes:

1. This refers to the sale of certain products to the Hon Hai Group by the Group pursuant to the framework product sales agreement dated 18 January 2005 (as amended by the supplemental agreements dated 28 February 2006, 24 October 2007 and 19 November 2010 respectively) for an extended term commencing from 1 January 2011 to 31 December 2013. The total consideration for the year ended 31 December 2010 paid by the Hon Hai Group was US$90.461 million.

2. This refers to the properties leased by the Hon Hai Group to the Group pursuant to the framework lease agreement dated 18 January 2005 (as amended by the supplemental agreements dated 12 January 2006, 20 September 2006, 24 October 2007 and 19 November 2010 respectively) for an extended term commencing from 1 January 2011 to 31 December 2013. The total consideration for the year ended 31 December 2010 paid to the Hon Hai Group was US$4.737 million.

3. This refers to the general administrative, support, utility and other services provided by the Hon Hai Group to the Group pursuant to the general services agreement dated 18 January 2005 (as amended by the supplemental agreements dated 12 January 2006, 24 October 2007 and 19 November 2010 respectively) for an extended term commencing from 1 January 2011 to 31 December 2013. The total consideration for the year ended 31 December 2010 paid to the Hon Hai Group was US$58.616 million.

4. This refers to the sub-contracting services provided to the Hon Hai Group by the Group pursuant to the framework sub-contracting (income) agreement dated 18 January 2005 (as amended by the supplemental agreements dated 12 January 2006, 24 October 2007 and 19 November 2010 respectively) for an extended term commencing from 1 January 2011 to 31 December 2013. The total consideration for the year ended 31 December 2010 paid by the Hon Hai Group was US$28.17 million.

REPORT OF THE DIRECTORS

5. This refers to equipment purchased by the Group from and sold by the Group to the Hon Hai Group pursuant to the framework equipment purchase agreement dated 18 January 2005 (as amended by the supplemental agreements dated 12 January 2006, 24 October 2007 and 19 November 2010 respectively) for an extended term commencing from 1 January 2011 to 31 December 2013 and the framework equipment sale agreement dated 18 January 2005 (as amended by the supplemental agreements dated 12 January 2006, 24 October 2007 and 19 November 2010 respectively) for an extended term commencing from 1 January 2011 to 31 December 2013 respectively. The total consideration for the year ended 31 December 2010 for equipment purchase paid to the Hon Hai Group and equipment sale paid by the Hon Hai Group were US$25.635 million and US$45.331 million respectively.

6. This refers to the supply of materials and components by the Hon Hai Group to the Group pursuant to the framework materials and components supply agreement dated 19 January 2005 (as amended by the supplemental agreements dated 28 February 2006, 24 October 2007 and 19 November 2010 respectively) for an extended term commencing from 1 January 2011 to 31 December 2013. The total consideration for the year ended 31 December 2010 paid to the Hon Hai Group was US$488.546 million.

7. This refers to the properties leased by the Group to the Hon Hai Group pursuant to the framework lease agreement dated 24 October 2007 (as amended by the supplemental agreement dated 19 November 2010) for an extended term commencing from 1 January 2011 to 31 December 2013. The total consideration for the year ended 31 December 2010 paid by the Hon Hai Group was US$3.031 million.

8. This refers to the general administrative, support, utility and other services provided by the Group to the Hon Hai Group pursuant to the framework general services agreement dated 24 October 2007 (as amended by the supplemental agreement dated 19 November 2010) for an extended term commencing from 1 January 2011 to 31 December 2013. The total consideration for the year ended 31 December 2010 paid by the Hon Hai Group was US$5.237 million.

9. This refers to the research and development services, design services, repair services and sub-contracting services provided by the Hon Hai Group to the Group pursuant to the framework consolidated services and sub-contracting agreement dated 24 October 2007 (as amended by the supplemental agreement dated 19 November 2010) for an extended term commencing from 1 January 2011 to 31 December 2013. The total consideration for the year ended 31 December 2010 paid to the Hon Hai Group was US$30.418 million.

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

1. have received the approval from the Board;

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

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

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

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

REPORT OF THE DIRECTORS

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

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

2. on normal commercial terms; and

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

SHARE OPTION SCHEME AND SHARE SCHEME

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

Option Scheme

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

Category of grantee	Outstanding at beginning of year	Date of grant during year	Granted during year	Vesting period	Exercise price	Exercised during year	Lapsed during year	Cancelled during year	Expired during year	Outstanding at end of year
Director										
Lee Jer Sheng	3,024,734	–	–	each year on 25 July from 2006 to 2011	HK$6.06	–	–	–	–	3,024,734
Employees	259,406,279	–	–	each year on 25 July from 2006 to 2011	HK$6.06	33,901,600	3,391,908	78,400	–	222,034,371
Employees	2,400,000	–	–	each year on 16 July from 2008 to 2013	HK$20.63	–	–	–	–	2,400,000
	264,831,013		–			33,901,600	3,391,908	78,400	–	227,459,105

Summary of Principal Terms of the Option Scheme

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

REPORT OF THE DIRECTORS

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

The total number of shares in respect of which options may be granted under the Option Scheme shall be 693,105,602 shares, representing approximately 9.63% of the issued share capital of the Company as at the date of this annual report.

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

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

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

Information on the Share Scheme

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

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

As at 30 March 2011, the issued share capital of the Company comprised 7,199,419,675 shares of US$0.04 each. Subject to the passing of an ordinary resolution approving the Scheme Mandate and on the basis that no further shares will be issued, purchased or repurchased prior to the forthcoming annual general meeting, exercise in full of the Scheme Mandate will result in 143,988,393 shares being allotted and issued under the Scheme Mandate. On the basis of the closing price of HK$4.89 per share as at 30 March 2011 and the Scheme Mandate being exercised in full, the aggregate market value of the 143,988,393 shares to be allotted and issued pursuant thereto would be approximately HK$704,103,241. The Company expects that the costs attributable to the grant of any shares under the Share Scheme will be accounted for by reference to the market value of such shares at the time of grant. The Company will give due consideration to any financial impact arising from the grant of shares under the Share Scheme before exercising the Scheme Mandate.

REPORT OF THE DIRECTORS

Pursuant to the approval of the Board on 27 April 2010, 19 November 2010 and 29 December 2010 respectively, the Company awarded 70,624,721 ordinary shares (including 4,994,280 shares were purchased from the market by the trustee per the Share Scheme) without lock-up period to 8,137 employees under the Share Scheme.

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

MAJOR CUSTOMERS AND SUPPLIERS

During the year, sales to the Group's five largest customers accounted for approximately 90.89% of the Group's total sales for the year and sales to the Group's largest customer amounted to approximately 28.10%. Purchases from the Group's five largest suppliers accounted for approximately 51.09% of the Group's total purchases for the year and purchases from the Group's largest supplier amounted to approximately 20.90%.

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

MANAGEMENT CONTRACTS

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

SUFFICIENCY OF PUBLIC FLOAT

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2010.

PRE-EMPTIVE RIGHTS

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

REPORT OF THE DIRECTORS

PENSION SCHEMES

Details of the Group's pension scheme and the basis of calculation are set out in note 35 to the financial statements.

AUDIT COMMITTEE

The Company has established an audit committee in accordance with the requirements of the Listing Rules and the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules (the "CCGP"). 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 2010.

CORPORATE GOVERNANCE

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

AUDITORS

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

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

Hong Kong, 30 March 2011

INDEPENDENT AUDITOR'S REPORT

Deloitte.
德勤

TO THE SHAREHOLDERS OF FOXCONN INTERNATIONAL HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Foxconn International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 28 to 106, which comprise the consolidated statements of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2010, and of the Group's loss and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
30 March 2011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	NOTES	2010 US$'000	2009 US$'000
Turnover	6	**6,626,004**	7,213,628
Cost of sales		**(6,343,561)**	(6,785,266)
Gross profit		**282,443**	428,362
Other income, gains and losses	7	**163,979**	168,909
Selling expenses		**(26,832)**	(19,200)
General and administrative expenses		**(251,959)**	(244,353)
Research and development expenses		**(219,758)**	(196,499)
Impairment loss recognised for property, plant and equipment	14	**(81,644)**	(34,089)
Impairment loss recognised for goodwill	19	**(34,445)**	(28,630)
Impairment loss recognised for interests in an associate		**(2,664)**	–
Interest expense on bank borrowings	24	**(6,665)**	(4,505)
Share of profits of associates		**1,416**	1,440
(Loss) profit before tax	8	**(176,129)**	71,435
Income tax expense	11	**(43,638)**	(31,813)
(Loss) profit for the year		**(219,767)**	39,622
Other comprehensive income (expense)			
Exchange differences arising on translation of foreign operations		**115,151**	65,598
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		**1,827**	3,873
Other comprehensive income for the year		**116,978**	70,545
Total comprehensive (expense) income for the year		**(102,789)**	110,167

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	NOTES	2010 US$'000	2009 US$'000
(Loss) profit for the year attributable to:			
Owners of the Company		**(218,317)**	38,587
Non-controlling interests		**(1,450)**	1,035
		(219,767)	39,622
Total comprehensive (expense) income attributable to:			
Owners of the Company		**(103,833)**	108,669
Non-controlling interests		**1,044**	1,498
		(102,789)	110,167
(Loss) earnings per share	*13*		
Basic		**(US3.06 cents)**	US0.55 cents
Diluted		**(US3.06 cents)**	US0.55 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2010

	NOTES	2010 US$'000	2009 US$'000
Non-current assets			
Property, plant and equipment	14	**1,722,832**	1,823,185
Investment properties	15	**30,450**	38,330
Prepaid lease payments	16	**135,213**	161,421
Available-for-sale investments	17	**91**	1,619
Interests in associates	18	**46,814**	46,235
Goodwill	19	**–**	34,445
Deferred tax assets	20	**28,732**	33,016
Deposits for acquisition of prepaid lease payments	38	**28,795**	–
Deposits for acquisition of property, plant and equipment		**4,141**	6,346
		1,997,068	2,144,597
Current assets			
Inventories	21	**748,189**	716,160
Trade and other receivables	22	**1,647,775**	1,412,821
Bank deposits	29	**268,063**	160,805
Bank balances and cash	29	**1,356,254**	1,200,725
		4,020,281	3,490,511
Current liabilities			
Trade and other payables	23	**1,401,150**	1,522,749
Bank borrowings	24	**862,213**	362,639
Provision	30	**28,340**	23,533
Tax payable		**75,385**	57,956
		2,367,088	1,966,877
Net current assets		**1,653,193**	1,523,634
Total assets less current liabilities		**3,650,261**	3,668,231

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2010

	NOTES	2010 US$'000	2009 US$'000
Capital and reserves			
Share capital	25	**286,563**	283,995
Reserves	26	**3,260,464**	3,287,796
Equity attributable to owners of the Company		**3,547,027**	3,571,791
Non-controlling interests		**46,000**	35,676
Total equity		**3,593,027**	3,607,467
Non-current liabilities			
Deferred tax liabilities	20	**3,423**	3,421
Deferred income	31	**53,811**	57,343
		57,234	60,764
		3,650,261	3,668,231

The consolidated financial statements on pages 28 to 106 were approved and authorised for issue by the board of directors on 30 March 2011 and are signed on its behalf by:

CHIN WAI LEUNG, SAMUEL
DIRECTOR

CHIH YU YANG
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

	Attributable to owners of the Company										
	Share capital US$'000	**Share premium** US$'000	**Special reserve** US$'000 (note 26)	**Legal reserve** US$'000 (note 26)	**Revaluation reserve** US$'000	**Translation reserve** US$'000	**Share compensation reserve** US$'000	**Retained profits** US$'000	**Total** US$'000	**Non-controlling interests** US$'000	**Total** US$'000
Balance at 1 January 2009	282,458	686,913	15,514	145,844	(1,074)	189,634	63,386	2,038,658	3,421,333	34,178	3,455,511
Exchange differences arising on translation of foreign operations	–	–	–	–	–	65,135	–	–	65,135	463	65,598
Fair value changes of available-for-sale investments	–	–	–	–	(1,836)	–	–	–	(1,836)	–	(1,836)
Reclassification adjustment upon impairment of available-for-sale investments	–	–	–	–	2,910	–	–	–	2,910	–	2,910
Share of translation reserve of associates	–	–	–	–	–	3,873	–	–	3,873	–	3,873
Other comprehensive income for the year	–	–	–	–	1,074	69,008	–	–	70,082	463	70,545
Profit for the year	–	–	–	–	–	–	–	38,587	38,587	1,035	39,622
Total comprehensive income for the year	–	–	–	–	1,074	69,008	–	38,587	108,669	1,498	110,167
Issue of ordinary shares under Option Scheme and Share Scheme	1,537	34,244	–	–	–	–	(26,190)	–	9,591	–	9,591
Recognition of equity-settled share based payment *(note 36)*	–	–	–	–	–	–	32,198	–	32,198	–	32,198
Profit appropriations	–	–	–	8,241	–	–	–	(8,241)	–	–	–
Transfer *(note)*	–	–	–	–	–	–	(5,701)	5,701	–	–	–
Balance at 31 December 2009	283,995	721,157	15,514	154,085	–	258,642	63,693	2,074,705	3,571,791	35,676	3,607,467
Exchange differences arising on translation of foreign operations	–	–	–	–	–	112,657	–	–	112,657	2,494	115,151
Share of translation reserve of associates	–	–	–	–	–	1,827	–	–	1,827	–	1,827
Other comprehensive income for the year	–	–	–	–	–	114,484	–	–	114,484	2,494	116,978
Loss for the year	–	–	–	–	–	–	–	(218,317)	(218,317)	(1,450)	(219,767)
Total comprehensive income (expense) for the year	–	–	–	–	–	114,484	–	(218,317)	(103,833)	1,044	(102,789)
Issue of ordinary shares under Option Scheme and Share Scheme	2,568	55,034	–	–	–	–	(31,132)	–	26,470	–	26,470
Capital contribution from non-controlling interests of a subsidiary	–	–	–	–	–	–	–	–	–	9,280	9,280
Payment made for equity-settled share based payment *(note 36)*	–	–	–	–	–	–	(3,330)	–	(3,330)	–	(3,330)
Recognition of equity-settled share based payment *(note 36)*	–	–	–	–	–	–	55,929	–	55,929	–	55,929
Profit appropriations	–	–	–	3,952	–	–	–	(3,952)	–	–	–
Transfer *(note)*	–	–	–	–	–	–	(456)	456	–	–	–
Balance at 31 December 2010	286,563	776,191	15,514	158,037	–	373,126	84,704	1,852,892	3,547,027	46,000	3,593,027

Note: The amount represents aggregate of the amount previously recognised in share compensation reserve in respect of those share options forfeited after vesting date, and the amount previously recognised in share compensation reserve in respect of those difference between the market prices of vested share awards at grant date and market prices of ordinary shares subsequent purchased by trustee from the stock market.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2010

	NOTE	2010 US$'000	2009 US$'000
OPERATING ACTIVITIES			
(Loss) profit before tax		(176,129)	71,435
Adjustments for:			
Depreciation and amortisation		286,995	254,479
Impairment loss recognised for property, plant and equipment		81,644	34,089
Impairment loss recognised for goodwill		34,445	28,630
Impairment loss recognised for available-for-sale investments		1,519	3,356
Impairment loss recognised for interests in an associate		2,664	–
Loss on disposal of property, plant and equipment		13,057	2,235
Write down (reversal of write down) of inventories		6,014	(547)
Share-based payment expense		55,929	32,198
Interest expense		6,665	4,505
Interest income		(18,872)	(14,088)
Gain on disposal of subsidiaries		–	(2,397)
Deferred income recognised to income		(4,650)	(4,417)
Write back of allowance for doubtful debts		(519)	(294)
Share of profits of associates		(1,416)	(1,440)
Operating cash flows before movements in working capital		287,346	407,744
(Increase) decrease in inventories		(25,493)	138,637
(Increase) decrease in trade and other receivables		(219,019)	46,333
(Decrease) increase in trade and other payables		(139,903)	138,807
Increase (decrease) in provision		3,693	(19,337)
Cash (used in) generated from operations		(93,376)	712,184
Income taxes paid		(21,545)	(57,573)
Interest paid		(5,882)	(6,636)
Interest received		17,621	15,862
Proceeds on disposal of investments held for trading		–	970
Payments made for share-based payment expense		(3,330)	–
NET CASH (USED IN) FROM OPERATING ACTIVITIES		(106,512)	664,807

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2010

	NOTE	2010 US$'000	2009 US$'000
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(253,805)**	(121,855)
Increase in bank deposits for investing purpose		**(99,504)**	(26,335)
Increase in deposits for acquisition of property, plant and equipment		**(24,628)**	(2,563)
Proceeds on disposal of property, plant and equipment		**52,800**	26,908
Government subsidies received		**8,298**	25,680
Additions of investment properties		**–**	(307)
Prepaid lease payments made		**–**	(1,314)
Net proceeds on disposal of subsidiaries	28	**–**	30,310
NET CASH USED IN INVESTING ACTIVITIES		**(316,839)**	(69,476)
FINANCING ACTIVITIES			
Bank borrowings repaid		**(3,517,233)**	(1,477,369)
Bank borrowings raised		**4,023,045**	1,361,510
Proceeds from issue of shares		**26,470**	9,591
Capital contribution from non-controlling interests of a subsidiary		**9,280**	–
NET CASH FROM (USED IN) FINANCING ACTIVITIES		**541,562**	(106,268)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**118,211**	489,063
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**1,200,725**	705,037
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**37,318**	6,625
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**1,356,254**	1,200,725
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances and cash		**1,356,254**	1,200,725

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

1. GENERAL

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 8 February 2000 under the Companies Law of the Cayman Islands. The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the " Stock Exchange") since 3 February 2005. The Company's parent company is Foxconn (Far East) Limited (incorporated in the Cayman Islands) and its ultimate holding company is Hon Hai Precision Industry Co. Ltd. ("Hon Hai") (incorporated in Taiwan and its shares are listed on Taiwan Stock Exchange). The addresses of the registered office and principal place of business of the Company are disclosed in the section headed "Corporate Information" in the annual report.

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

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

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (the "IFRSs")

In the current year, the Group has applied the following new and revised standards, amendments and interpretations (hereinafter collectively referred to as "new and revised IFRSs") issued by the International Accounting Standards Board (the "IASB") and IFRS Interpretation Committee (formerly known as the International Financial Reporting Interpretations Committee) (the "IFRIC") of the IASB that are effective for the Group's financial year beginning 1 January 2010.

IFRSs (Amendments)	Improvements to IFRSs issued in 2009
IFRSs (Amendments)	Amendments to IFRSs 5 as part of Improvements to IFRSs issued in 2008
IAS 27 (Revised 2008)	Consolidated and separate financial statements
IAS 39 (Amendment)	Eligible hedged items
IFRS 2 (Amendment)	Group cash-settled share-based payment transactions
IFRS 3 (Revised 2008)	Business combinations
IFRIC 17	Distributions of non-cash assets to owners

Except as disclosed 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.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (the "IFRSs") *(Continued)*

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 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.

In accordance with the transitional provisions set out in the amendment to IAS 17, the Group reassessed the classification of unexpired leasehold land as at 1 January 2010 based on information that existed at the inception of the leases. The adoption of Amendment to IAS 17 "Leases" had no material impact on the 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.

IFRSs (Amendments)	Improvements to IFRSs issued in 2010[3]
IAS 12 (Amendments)	Deferred tax: Recovery of underlying assets[6]
IAS 24 (as revised in 2009)	Related party disclosure[4]
IAS 32 (Amendments)	Classification of rights issue[1]
IFRS 7 (Amendments)	Disclosures – Transfers of financial assets[5]
IFRS 9	Financial instruments[7]
IFRIC – INT 14 (Amendments)	Prepayments of a minimum funding requirement[4]
IFRIC – INT 19	Extinguishing financial liabilities with equity instruments[2]

1 Effective for annual periods beginning on or after 1 February 2010.
2 Effective for annual periods beginning on or after 1 July 2010.
3 Effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate.
4 Effective for annual periods beginning on or after 1 January 2011.
5 Effective for annual periods beginning on or after 1 July 2011.
6 Effective for annual periods beginning on or after 1 January 2012.
7 Effective for annual periods beginning on or after 1 January 2013.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (the "IFRSs") *(Continued)*

New and revised IFRSs in issue but not yet effective *(Continued)*

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

In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, 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 presentation 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 attributable to a financial liability's 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 at fair value through profit or loss is presented in profit or loss.

The directors of the Company anticipate that IFRS 9 will be adopted in the Group's consolidated financial statements for the financial year ending 31 December 2013. Based on the Group's financial assets and financial liabilities as at 31 December 2010, the application of IFRS 9 will affect the classification and measurement of the Group's available-for-sale investments but not on the Group's other financial assets and financial liabilities. As at 31 December 2010, no financial liability has been designated as at fair value through profit and loss, the application of IFRS 9 will affect the measurement of such financial liability if designation is made in the future.

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

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

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

Basis of consolidation

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

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

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

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

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

Investments in associates

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

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are initially recognised in the consolidated statement of financial position at cost as adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in associates *(Continued)*

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

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

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 "Impairment of Assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group' consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Revenue recognition

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

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

Service income is recognised when services are provided.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment

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

Depreciation is recognised so as to write off the cost of items of property, plant and equipment (other than construction in progress and freehold land) over their estimated useful lives and after taking into account of their estimated residual values, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. Land has an unlimited useful life is not depreciated.

Construction in progress represents property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Costs, include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal of retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investment properties

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

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the item is derecognised.

For a transfer from investment property to an owner-occupied property as evidenced by commencement of owner-occupation, the fair value of the property at the date of transfer become the deemed cost of that property.

If an item of property, plant and equipment becomes an investment property because its use has changed as evidenced by end of owner-occupation, such transfer do not change the carrying amount of the property transferred.

Prepaid lease payments

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

Leasing

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

The Group as lessor

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing *(Continued)*

The Group as lessee

Rental payable under operating lease are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

For leasehold land classified as operating lease, whilst the building element is classified as a finance lease is presented as “prepaid lease payment” in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company’s net investment in a foreign operation, in which case, such exchange differences are recognised in other comprehensive income and accumulated in equity and will be reclassified from equity to profit or loss upon disposal of the foreign operation.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. US$) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the translation reserve).

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

Borrowing costs

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

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

Government grants

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Retirement benefit costs

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

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of the reporting period. Actuarial gains and losses which exceed 10% of the greater of the present value of the Group's defined benefit obligations and the fair value of plan assets at the end of the previous reporting period are amortised over the expected average remaining working lives of the participating employees. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the amended benefits become vested.

The amount recognised in the consolidated statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service cost, and as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to unrecognised actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately on profit or loss.

Financial instruments

Financial assets and financial liabilities are recognised in the Group's consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss ("FVTPL"), loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or contention in the marketplace.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Effective interest method

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

Financial assets at fair value through profit or loss

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

A financial asset is classified as held for trading if:

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

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

Loans and receivables

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Available-for-sale financial assets

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

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

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

Impairment of financial assets

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets (Continued)

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

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

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

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets (Continued)

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

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

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of a group entity after deducting all of its liabilities. The Group's financial liabilities are generally classified into other financial liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Other financial liabilities

Other financial liabilities including bank borrowings, trade and other payables are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments (Continued)

Derivative financial instruments

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

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial assets and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in profit or loss.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows where the effect is material.

Share-based payment transactions

Equity-settled share-based payment transactions

The fair value of services received determined by reference to the fair value of share options or ordinary shares granted at the grant date is expensed on a straight-line basis over the vesting period or recognised as an expense in full at the grant date when the share options or ordinary shares granted vest immediately, with a corresponding increase in equity (share compensation reserve). The fair value of the ordinary shares granted shall be measured at the market price of the shares, and the fair value of the share options granted shall be estimated by applying an option pricing model.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payment transactions *(Continued)*

Equity-settled share-based payment transactions (Continued)

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

At the time when the share options are exercised, the amount previously recognised in share compensation reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share compensation reserve will be transferred to retained profits.

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

Cash-settled share-based payment transactions

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The management had made the following estimates and assumptions in the process of applying the Group's accounting policies, which are described in note 3, that have a significant risk of causing a material adjustment to the carrying amounts of the assets and liabilities, in the current and next financial years as discussed below.

Impairment of property, plant and equipment

The impairment of certain property, plant and equipment for providing manufacturing services to customers in connection with the production of handsets is based on the recoverable amount of those assets, which is the higher of fair value less costs to sell or value-in-use of those assets. Any changes in the market price or future cash flows will affect the recoverable amount of those assets and may lead to recognition of additional impairment losses. An impairment loss of US$81,644,000 (2009: US$34,089,000) was recognised in profit or loss in the current year. The carrying amount of the relevant property, plant and equipment as at 31 December 2010 is US$1,664,223,000 (2009: US$1,651,046,000) (see note 14).

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

Provision for warranty

Provision has been made for value-added costs to repair or replace defective goods, such as labour costs (whether incurred internal or external) and material costs, and costs that may not be recoverable from suppliers for the rework, in accordance with contractual terms or the Group's policy. In determining the amount of provisions, the management estimates the extent of repairs and replacements with reference to its past experience, technological needs and industrial averages for defective products. The estimation may be adversely affected by many factors, including additional variations to the plans requested by the customers or because of technical needs, and unforeseen problems and circumstances. Any of these factors may affect the extent of repair or replacement required and therefore affect the ultimate repair and replacement costs to be incurred in the future periods. As at 31 December 2010, the provision is US$28,340,000 (2009: US$23,533,000).

Details of the movement on the provision are set out in note 30.

Income taxes

As at 31 December 2010, a deferred tax asset of US$4,376,000 (2009: US$2,812,000) in relation to unused tax losses of US$19,022,000 (2009: US$11,411,000) have been recognised in the Group's consolidated statement of financial position. No deferred tax asset has been recognised on the tax losses of US$768,274,000 (2009: US$419,462,000) due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future taxable profits or taxable temporary differences will be available in the future.

Deferred tax assets were also recognised for other deductible temporary differences on allowances for inventories, trade and other receivables, warranty provision, deferred income and other accrued expenses of approximately US$171,903,000 (2009: US$130,967,000).

At 31 December 2010, the Group has not recognised deductible temporary differences on allowances for inventories, trade and other receivables, warranty provision, deferred income and other accrued expenses of approximately US$132,698,000 (2009: US$134,370,000) as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

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

5. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2010 US$'000	2009 US$'000
Financial assets		
Loans and receivables	**2,958,072**	2,440,949
Available-for-sale financial assets	**91**	1,619
Fair value through profit or loss		
Derivatives	**1,183**	–
Financial liabilities		
Amortised cost	**2,060,481**	1,664,197
Fair value through profit or loss		
Derivatives	**–**	999

Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investments, trade and other receivables, trade and other payables and bank borrowings. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies applied by the Group to mitigate these risks are set out below. Management monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

Market risk

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank loans (see note 24 for details of these borrowings). The directors monitor interest rate exposures and will consider hedging significant interest rate risk should the need arise. Cash flow interest rate risk in relation to variable-rate bank balances and deposits is considered insignificant as most of them are short-term in nature. Accordingly, no interest rate sensitivity analysis is prepared.

Currency risk

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

5. FINANCIAL INSTRUMENTS

Financial risk management objectives and policies *(Continued)*

Market risk (Continued)

Currency risk *(Continued)*

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

As at 31 December 2010, total notional amount of outstanding forward foreign exchange contracts that the Group has committed are approximately US$173,407,000 (2009: US$384,975,000), and their fair values are estimated to be approximately US$1,183,000 assets (2009: US$999,000 liabilities), and are included as other receivables (2009: other payables) at the end of the reporting period. The contracts mainly related to buying of Japanese Yen and US$ with maturities in first quarter of the following year.

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

	2010 US$'000	2009 US$'000
Assets		
US$	561,986	784,236
Liabilities		
US$	(1,311,543)	(834,848)

The Group's bank borrowings of approximately US$816,470,000 (2009: US$322,291,000) at the end of the reporting period are denominated in US$ other than the functional currency of respective group entities and are included in the monetary liabilities disclosed above.

Exchange rate sensitivity

At the end of the reporting period, if exchange rates of the functional currency of relevant group entities against US$ had been appreciated/depreciated by 3% (2009: 3%) and all other variables were held constant, the Group's loss would increase/decrease by approximately US$7,545,000 (2009: the Group's profit would decrease/increase by approximately US$2,431,000) for the year.

5. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31 December 2010 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. A major portion of the Group's trade debts are receivable from industry leaders or multinational customers with good financial background. Meanwhile, in order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Credit risk in mobile phone handset industry is concentrated on a few global handset manufacturers. However, with the strong financial background and good creditability of the global handset manufacturers, the management considers there is no significant credit risk. The Group also seeks to maintain strict control over the creditability of customers and its outstanding receivables. In determining whether there is objective evidence of impairment loss, the Group takes into consideration of the future cash flows of the relevant receivables.

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

Liquidity risk

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

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

As at 31 December 2010, the Group has available unutilised banking facilities of approximately US$2,224,337,000 (2009: US$2,612,702,000).

5. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Fair value

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

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

Fair value measurements recognised in the consolidated statement of financial position

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

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

	Level 2 US$'000	Total US$'000
2010		
Financial assets at FVTPL		
Derivative financial instruments	1,183	1,183
2009		
Financial liabilities at FVTPL		
Derivative financial instruments	999	999

There were no transfers between Level 1 and 2 in the current year and there was no financial assets and financial liabilities classified under Level 3 as at 31 December 2009 and 2010.

6. 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.

6. SEGMENT INFORMATION *(Continued)*

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.

	2010 **US$'000**	2009 US$'000
Segment revenue (external sales)		
Asia	**3,263,416**	3,470,237
Europe	**1,754,216**	1,626,164
America	**1,608,372**	2,117,227
Total	**6,626,004**	7,213,628
Segment profit		
Asia	**190,304**	275,075
Europe	**90,192**	89,071
America	**46,552**	86,560
	327,048	450,706
Other income, gains and losses	**88,675**	93,276
General and administrative and research and development expenses	**(471,717)**	(440,852)
Impairment loss recognised for property, plant and equipment	**(77,777)**	–
Impairment loss recognised for goodwill	**(34,445)**	(28,630)
Impairment loss recognised for interests in an associate	**(2,664)**	–
Interest expense on bank borrowings	**(6,665)**	(4,505)
Share of profits of associates	**1,416**	1,440
(Loss) profit before tax	**(176,129)**	71,435

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.

6. SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities

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

	2010 US$'000	2009 US$'000
ASSETS		
Segment assets		
Allocated		
Asia	767,902	552,408
Europe	329,872	320,493
America	555,709	562,676
Total	1,653,483	1,435,577
Unallocated		
Property, plant and equipment	1,645,406	1,707,588
Inventories	629,163	585,319
Cash and cash equivalents	1,521,658	1,271,730
Others	485,812	539,014
Corporate assets	81,827	95,880
Consolidated total assets	6,017,349	5,635,108
LIABILITIES		
Segment liabilities		
Allocated		
Europe	16,948	14,867
America	71,515	86,497
Total	88,463	101,364
Unallocated		
Trade and other payables	1,310,009	1,427,854
Others	79,336	73,558
Corporate liabilities	946,514	424,865
Consolidated total liabilities	2,424,322	2,027,641

6. SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities *(Continued)*

For the purposes of monitoring segment performances and allocating resources between segments, trade receivables from Asia operations 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.

Other information

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

	Year ended 31 December 2010				
	Asia	Europe	America	Unallocated	Consolidated
	US$'000	US$'000	US$'000	US$'000	US$'000
Capital additions	–	1,885	5,053	273,981	280,919
Depreciation and amortisation	–	3,232	23,067	260,696	286,995
(Gain) loss on disposal of property, plant and equipment	–	(3,965)	3,124	13,898	13,057
(Write back of allowance) allowance for doubtful debts	(431)	8	(96)	–	(519)
Write down (reversal of write down) of inventories	–	92	(9,807)	15,729	6,014
Provision for warranty	10,505	864	910	–	12,279
Impairment loss recognised for property, plant and equipment	–	168	3,699	77,777	81,644

	Year ended 31 December 2009				
	Asia	Europe	America	Unallocated	Consolidated
	US$'000	US$'000	US$'000	US$'000	US$'000
Capital additions	–	22	8,582	131,605	140,209
Depreciation and amortisation	–	5,946	18,904	229,629	254,479
(Gain) loss on disposal of property, plant and equipment	–	(2,282)	724	3,793	2,235
(Write back of allowance) allowance for doubtful debts	(294)	8	(8)	–	(294)
(Reversal of) write down of inventories	–	(2,710)	525	1,638	(547)
Provision for warranty	14,216	222	4,926	–	19,364
Impairment loss recognised for property, plant and equipment	12,179	11,903	10,007	–	34,089

6. SEGMENT INFORMATION *(Continued)*

Geographical information

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

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

	Revenue from external customers		Non-current assets	
	2010	2009	**2010**	2009
	US$'000	US$'000	**US$'000**	US$'000
PRC (country of domicile)	**5,026,162**	5,135,471	**1,668,870**	1,679,983
USA	**671,262**	1,127,690	**2,839**	4,029
Mexico	**198,817**	208,279	**27,313**	31,451
Other countries	**729,763**	742,188	**269,223**	394,499
	6,626,004	7,213,628	**1,968,245**	2,109,962

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

Information about major customers

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

	2010	2009
	US$'000	US$'000
Customer A[1]	**1,862,203**	2,071,621
Customer B[1]	**1,755,986**	1,804,701
Customer C[1]	**1,046,944**	1,759,567
Customer D[1]	**1,130,400**	N/A[2]

1 Revenue from provision of manufacturing services to customers located in Asia, Europe and America, in connection with the production of handsets.

2 The corresponding revenue did not contribute over 10% of the total sales of the Group.

7. OTHER INCOME, GAINS AND LOSSES

	2010 US$'000	2009 US$'000
An analysis of the Group's other income, gains and losses is as follows:		
Interest income from bank	18,872	14,088
Service and subcontracting income	75,304	75,633
Sales of materials and scraps	22,663	46,779
Repair and modifications of moldings	35,878	26,132
Net foreign exchange gain (loss)	1,121	(7,954)
Gain on disposal of subsidiaries	–	2,397
Government subsidies (note)	8,298	5,607
Rental income	10,790	5,529
Impairment loss recognised for available-for-sale investments	(1,519)	(3,356)
Loss on disposal of property, plant and equipment	(13,057)	(2,235)
Others	5,629	6,289
	163,979	168,909

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

8. (LOSS) PROFIT BEFORE TAX

	2010	2009
	US$'000	US$'000
(Loss) profit before tax has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	**282,169**	247,781
Depreciation of investment properties	**1,820**	3,623
Amortisation of prepaid lease payments (included in general and administrative expense)	**3,006**	3,075
Total depreciation and amortisation	**286,995**	254,479
Auditor's remuneration	**1,165**	1,242
Cost of inventories recognised as expense	**6,325,268**	6,766,449
Provision for warranty	**12,279**	19,364
Write back of allowance for doubtful debts, net	**(519)**	(294)
Write down (reversal of write down) of inventories (included in cost of inventories recognised as expense)	**6,014**	(547)
Staff costs		
Directors' remuneration	**4,053**	1,313
Retirement benefit scheme contributions (excluding directors)	**29,708**	28,416
Equity-settled share-based payments	**55,929**	32,198
Cash-settled share-based payments	**11**	190
Other staff costs	**475,557**	422,964
	565,258	485,081

9. DIRECTORS' REMUNERATION

The emoluments paid or payable to each of the ten (2009: ten) directors were as follows:

2010	Fees US$'000	Other emoluments: Basic salaries and allowances US$'000	Other emoluments: Performance-based or discretionary bonus US$'000 (note)	Other emoluments: Retirement benefit scheme contributions US$'000	Total 2010 US$'000
Chin Wai Leung, Samuel	–	1,200	2,135	–	3,335
Chang Ban Ja, Jimmy	–	–	–	–	–
Gou Hsiao Ling	–	–	–	–	–
Lee Jin Ming	–	–	–	–	–
Lau Siu Ki	26	8	–	–	34
Daniel Joseph Mehan	26	–	–	–	26
Chen Fung Ming	26	–	–	–	26
Chih Yu Yang	–	89	335	–	424
Lee Jer Sheng (appointed on 8 June 2010)	–	62	146	–	208
Lu Fang Ming (resigned on 8 June 2010)	–	–	–	–	–
	78	1,359	2,616	–	4,053

9. DIRECTORS' REMUNERATION *(Continued)*

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

Note: The performance based or discretionary bonus is determined by reference to the individual performance of the directors and approved by the Remuneration Committee.

10. EMPLOYEES' EMOLUMENTS

The aggregate emoluments of the five highest paid individuals included two (2009: one) executive directors of the Company, whose emoluments are included in note 9 above. The emoluments of the remaining three (2009: four) individuals, one of whom was appointed as executive director in last year, were as follows:

	2010	2009
	US$'000	US$'000
Salaries and other benefits	**568**	1,255
Performance-related incentive payments	**442**	567
	1,010	1,822

Their emoluments were within the following bands:

	Number of employees	
	2010	2009
HK$2,000,001 to HK$2,500,000	**1**	–
HK$2,500,001 to HK$3,000,000	**2**	1
HK$3,000,001 to HK$3,500,000	**–**	1
HK$3,500,001 to HK$4,000,000	**–**	1
HK$4,000,001 to HK$4,500,000	**–**	1
	3	4

11. INCOME TAX EXPENSE

	2010 US$'000	2009 US$'000
Current tax	37,099	33,885
Underprovision in prior years	1,416	15,971
	38,515	49,856
Deferred tax *(note 20)*		
Current year	4,953	(12,905)
Change in tax rates	170	(5,138)
	5,123	(18,043)
	43,638	31,813

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in nor is derived from 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 increase from 18% to 25% progressively over 5 years from 1 January 2008 onwards. The applicable tax rate for current year was 22% (2009: 20%). Except as described below, other PRC subsidiaries are subject to EIT at 25% (2009: 25%).

During the year ended 31 December 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 (開國税所通[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 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 2009.

During the current year, 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 tax expense over charged for 2009 of approximately US$1,543,000 (RMB10,437,000) was credited to profit or loss in 2010.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

11. INCOME TAX EXPENSE *(Continued)*

The change in tax rate in current year was mainly arising from the change in tax rate of Foxconn Beijing as mentioned above and Honxun Electrical Industry (Hangzhou) Co., Ltd. from 15% to 22%.

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

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

	2010 US$'000	2009 US$'000
(Loss) profit before tax	**(176,129)**	71,435
Tax at the PRC income tax rate of 22% (2009: 20%) for the year *(note a)*	**(38,748)**	14,287
Effect of different tax rates of subsidiaries	**100**	340
Effect of income taxed at concessionary rate	**(9,030)**	(34,517)
Tax effect of expenses not deductible for tax purpose	**18,497**	18,136
Tax effect of income not taxable for tax purpose	**(8,767)**	(3,691)
Tax effect of tax losses/deductible temporary differences not recognised	**76,370**	26,713
Tax effect of income tax charges to PRC subsidiaries on disposal of certain qualified equipment *(note b)*	**3,356**	–
Tax effect of impairment and share of profit of associates	**274**	(288)
Tax effect of a change in tax rates	**170**	(5,138)
Underprovision in prior years	**1,416**	15,971
Tax expense for the year	**43,638**	31,813

Notes:

(a) The domestic income tax rate of 22% (2009: 20%) represents the PRC Enterprise Income Tax rate of which the Group's operations are substantially based.

(b) Pursuant to the relevant tax rules and regulations, PRC subsidiaries can claim PRC income tax credits on 40% of the acquisition cost of certain qualified equipment manufactured in the PRC. Such PRC income tax credits are allowed, and are accounted for, as deduction from current income tax expenses when relevant conditions are fulfilled and tax approval is obtained from the tax bureau. When PRC subsidiaries dispose these qualified equipment subsequently, income tax expenses on 40% of proceeds received will be charged in the year of disposal.

12. DIVIDEND

No dividend was paid or proposed during 2010 (2009: nil), nor has any dividend been proposed since the end of the reporting period.

13. (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:

	2010	2009
	US$'000	US$'000
(Loss) earnings attributable to the owners of the Company		
(Loss) earnings for the purposes of basic and diluted (loss) earnings per share	**(218,317)**	38,587

	2010	2009
Number of shares		
Weighted average number of ordinary shares for the purposes of basic and diluted (loss) earnings per share	**7,125,578,478**	7,066,326,311

The computation of diluted loss per share for the year ended 31 December 2010 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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

14. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings US$'000	Plant and machinery US$'000	Fixtures and equipment US$'000	Construction in progress US$'000	Total US$'000
COST					
At 1 January 2009	649,518	1,485,860	160,277	298,130	2,593,785
Exchange adjustments	10,203	21,186	3,274	414	35,077
Additions	17,167	66,784	3,414	52,537	139,902
Disposals	(4,242)	(104,914)	(5,130)	–	(114,286)
Disposal of subsidiaries	(1,961)	(16,227)	(438)	(42,835)	(61,461)
Transfers	165,569	47,055	(4,918)	(207,706)	–
Transfer to investment properties	(48,239)	–	–	–	(48,239)
At 31 December 2009	788,015	1,499,744	156,479	100,540	2,544,778
Exchange adjustments	19,102	41,436	2,605	2,087	65,230
Additions	27,209	184,899	8,031	60,780	280,919
Disposals	(8,371)	(223,985)	(11,184)	–	(243,540)
Transfers	87,971	16,748	79	(104,798)	–
Transfer from investment properties	7,045	–	–	–	7,045
At 31 December 2010	920,971	1,518,842	156,010	58,609	2,654,432
DEPRECIATION AND IMPAIRMENT					
At 1 January 2009	69,039	386,581	65,427	–	521,047
Exchange adjustments	2,322	9,401	2,258	–	13,981
Charge for the year	36,637	190,305	20,839	–	247,781
Eliminated on disposals	(1,639)	(80,055)	(3,450)	–	(85,144)
Eliminated on disposal of subsidiaries	(720)	(2,752)	(96)	–	(3,568)
Transfers	95	3	(98)	–	–
Transfer to investment properties	(6,593)	–	–	–	(6,593)
Impairment loss recognised in profit or loss	165	33,924	–	–	34,089
At 31 December 2009	99,306	537,407	84,880	–	721,593
Exchange adjustments	695	21,381	1,801	–	23,877
Charge for the year	43,478	218,482	20,209	–	282,169
Eliminated on disposals	(4,034)	(165,882)	(7,767)	–	(177,683)
Transfers	(35)	–	35	–	–
Impairment loss recognised in profit or loss	4,152	77,192	300	–	81,644
At 31 December 2010	143,562	688,580	99,458	–	931,600
CARRYING VALUES					
At 31 December 2010	777,409	830,262	56,552	58,609	1,722,832
At 31 December 2009	688,709	962,337	71,599	100,540	1,823,185

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

Included in the land and buildings are freehold land, located in Hungary, Brasil, Mexico, India and Taiwan, having an aggregate cost of approximately US$25,076,000 (2009: US$23,894,000). All buildings are situated outside Hong Kong.

Certain property, plant and equipment are pledged to secure banking facilities granted to the Group at the end of the reporting period (see note 37).

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

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

At 31 December 2010, 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$4,152,000, US$77,192,000 and US$300,000 has been recognised in respect of land and buildings, plant and machinery and fixtures and equipment respectively for the year. In 2009, impairment losses of US$165,000 and US$33,924,000 were recognised in respect of land and buildings and plant and machinery 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 by reference to the appraisal values provided by the professional appraisers.

15. INVESTMENT PROPERTIES

	US$'000
COST	
Additions	307
Transferred from property, plant and equipment	41,646
At 31 December 2009	41,953
Exchange adjustments	1,311
Transferred to property, plant and equipment	(8,316)
At 31 December 2010	34,948
DEPRECIATION AND IMPAIRMENT	
Provided for the year	3,623
At 31 December 2009	3,623
Exchange adjustments	326
Provided for the year	1,820
Transfer to property, plant and equipment	(1,271)
At 31 December 2010	4,498
CARRYING VALUES	
At 31 December 2010	30,450
At 31 December 2009	38,330

The fair value of the Group's investment properties at 31 December 2010 was US$30,788,000 (31 December 2009: US$49,229,000). The fair value has been arrived at based on a valuation carried out by Shenzhen Guozi Land & Real Estate Valuation Co., Ltd., an independent valuer not connected with the Group. The valuation was determined by reference to recent market prices for similar properties in the same locations and conditions.

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

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

16. PREPAID LEASE PAYMENTS

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

	2010 US$'000	2009 US$'000
Long lease	130,169	156,401
Medium-term lease	5,044	5,020
	135,213	161,421

17. AVAILABLE-FOR-SALE INVESTMENTS

	2010 US$'000	2009 US$'000
Overseas equity investment *(note a)*	–	1,519
Unlisted overseas equity investment *(note b)*	91	100
	91	1,619

Notes:

(a) Prior to 20 June 2009, the investment was measured at the quoted price in the Taiwan OTC Market. On 20 June 2009, the shares were delisted from Taiwan OTC Market and the investment was subsequently measured at deemed cost less any impairment. As at 31 December 2010, the Group held 6.15% (2009: 6.15%) of the ordinary share capital of Advanced Optoelectronic Technology Inc. ("AOT") and the management of the Group determined that the investment was fully impaired since the management considered there is a significant decline in the fair value of the investment in AOT which affected the estimated future cash flows of the financial assets.

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

18. INTERESTS IN ASSOCIATES

	2010 US$'000	2009 US$'000
Cost of investments in associates, less impairment		
Listed in Taiwan	34,614	34,614
Unlisted	6,935	9,599
Share of post-acquisition profits and other comprehensive income, net of dividend received	5,265	2,022
	46,814	46,235
Fair value of listed investments	50,521	55,947

On 27 February 2008, the Group subscribed for 74,999 new ordinary shares in Diabell Co., Ltd. ("Diabell"), a private limited company established in the Republic of Korea ("Korea"), at a cash consideration equivalent to approximately US$12,849,000 in aggregate. Diabell is principally engaged in the business of designing, developing, manufacturing and selling hinges and window lens for handsets as well as connectors, switches, metal decoration, vibration motors and related products. The Group held 19.998% equity interest in Diabell as at 31 December 2009 and 2010, and in the opinion of the directors, the Group is able to exercise significant influence over Diabell because it has the power to appoint one out of five directors of that company. In 2010, an impairment loss of US$2,664,000 (2009: US$nil) was recognised based on the Group's estimation of its share of the present value of the estimated future cash flows expected to be generated by Diabell.

On 5 March 2008, the Group entered into another agreement to subscribe for 14,893,000 new ordinary shares in Ways Technical Corp., Ltd., a limited company established in Taiwan and its shares are traded on the Taiwan OTC Market, at a total consideration of approximately US$34,614,000. Ways Technical Corp., Ltd. is principally engaged in the business of providing special coating surface treatment services to branded handheld devices (such as handsets and GPS) manufacturers or ODM companies. The Group held 24.18% (2009: 24.55%) equity interests in Ways Technical Corp., Ltd. as at 31 December 2010.

18. INTERESTS IN ASSOCIATES *(Continued)*

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

	2010	2009
	US$'000	US$'000
Total assets	**186,690**	153,767
Total liabilities	**(50,902)**	(33,120)
Net assets	**135,788**	120,647
Group's share of net assets of associates	**31,110**	27,867
Revenue	**115,899**	107,286
Profit for the year	**4,539**	5,119
Other comprehensive (expense) income	**7,164**	12,879
Group's share of profits and other comprehensive income of associates for the year	**3,243**	5,313

Included in the cost of investments in associates is goodwill of US$15,704,000 (2009: US$18,368,000) arising on the acquisition of associates as at 31 December 2010 and 2009. The movement of goodwill is set out as below:

	2010	2009
	US$'000	US$'000
COST		
At 1 January and 31 December	**21,618**	21,618
IMPAIRMENT		
At 1 January	**3,250**	3,250
Impairment loss recognised during the year	**2,664**	–
At 31 December	**5,914**	3,250
CARRYING VALUE		
At 31 December	**15,704**	18,368

19. GOODWILL

	2010	2009
	US$'000	US$'000
COST		
At 1 January and 31 December	63,075	63,075
IMPAIRMENT		
At 1 January	28,630	–
Impairment loss recognised during the year	34,445	28,630
At 31 December	63,075	28,630
CARRYING VALUES		
At 31 December	–	34,445

The amount represents goodwill arising on the acquisition of 76.34% interest in Chi Mei Communication 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 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 calculating the recoverable amount and the principal underlying assumptions are summarised as belows:

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: 13.17%). Cash flows beyond the 5-year period has been extrapolated using a steady 2% (2009: 2%) growth rate for further 15 years. This growth rate and the budgeted gross margin are determined based on the units past performance and management's expectations for the market development.

20. DEFERRED TAXATION

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

	Allowances for inventories, trade and other receivables	Warranty provision	Accelerated tax depreciation	Tax losses	Deferred income	Others	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
At 1 January 2009	(5,844)	(3,355)	103	(374)	(5,272)	3,338	(11,404)
Charge (credit) to profit or loss for the year	(1,286)	2,172	(113)	(2,371)	(4,203)	(7,104)	(12,905)
Effect of change in tax rates	(2,343)	(1,555)	–	5	199	(1,444)	(5,138)
Exchange adjustments	(24)	(24)	(7)	(72)	(39)	18	(148)
At 31 December 2009	(9,497)	(2,762)	(17)	(2,812)	(9,315)	(5,192)	(29,595)
Charge (credit) to profit or loss for the year	5,698	570	3,864	(2,325)	1,333	(4,187)	4,953
Effect of change in tax rates	(933)	(171)	4	916	(525)	879	170
Exchange adjustments	(394)	102	65	(155)	(127)	(328)	(837)
At 31 December 2010	(5,126)	(2,261)	3,916	(4,376)	(8,634)	(8,828)	(25,309)

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

	2010	2009
	US$'000	US$'000
Deferred tax assets	**(28,732)**	(33,016)
Deferred tax liabilities	**3,423**	3,421
	(25,309)	(29,595)

20. DEFERRED TAXATION *(Continued)*

At 31 December 2010, the Group has not recognised deductible temporary differences on allowances for inventories, trade and other receivables, warranty provision, deferred income and other accrued expenses of approximately US$132,698,000 (2009: US$134,370,000) as it is not probable that taxable profit will be available against which the deductible temporary difference can be utilised.

At the end of the reporting period, the Group has unused tax losses of US$787,296,000 (2009: US$430,873,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately US$19,022,000 (2009: US$11,411,000) of such losses. No deferred tax asset has been recognised in respect of the remaining US$768,274,000 (2009: US$419,462,000) tax losses either due to the unpredictability of future profit streams or because it is not probable that the unused tax losses will be available for utilisation before their expiry. The unrecognised tax losses will expire before 2015.

By reference to financial budgets, management believes that there will be sufficient future taxable profits or taxable temporary differences available in the future for the realisation of deferred tax assets which have been recognised in respect of tax losses and other temporary differences.

Under the EIT Law, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2009 onwards. No liability has been recognised in respect of differences associated with undistributed earnings of subsidiaries of approximately US$741,745,000 (2009: US$733,288,000) as at 31 December 2010 because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

21. INVENTORIES

	2010 US$'000	2009 US$'000
Raw materials	260,493	285,360
Work-in-progress	107,444	156,243
Finished goods	380,252	274,557
	748,189	716,160

Inventories carried at net realisable value were as follows:

	2010 US$'000	2009 US$'000
Raw materials	38,013	42,569
Work-in-progress	6,468	6,532
Finished goods	40,615	19,657
	85,096	68,758

22. TRADE AND OTHER RECEIVABLES

	2010 US$'000	2009 US$'000
Trade receivables	1,315,602	1,069,854
Less: allowance for doubtful debts	(519)	(956)
	1,315,083	1,068,898
Other taxes recoverables	268,941	297,410
Other receivables	63,751	46,513
Total trade and other receivables	1,647,775	1,412,821

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 from invoice date at the end of the reporting period:

	2010 US$'000	2009 US$'000
0 – 90 days	1,288,809	1,057,062
91 – 180 days	18,810	6,767
181 – 360 days	3,666	3,727
Over 360 days	3,798	1,342
	1,315,083	1,068,898

As at the end of the reporting period, 98% (2009: 99%) of the Group's trade receivables are neither past due nor impaired, and they are mainly receivables from certain global handset manufacturers that the Group considers have good credit standing. The Group seeks to maintain strict control over the creditability of customers and its outstanding receivables. Before accepting any new customer, the Group assesses the potential customers' credit quality and defines credit limits by customers. The creditability of customers is reviewed regularly.

22. TRADE AND OTHER RECEIVABLES *(Continued)*

As at 31 December 2010, trade receivables with a carrying amount of approximately US$26,274,000 (2009: US$11,836,000) that were past due but not impaired related to a number of independent customers that have a good track record with the Group. Based on past collection history, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

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

	2010 US$'000	2009 US$'000
91-180 days	18,810	6,767
181-360 days	3,666	3,727
Over 360 days	3,798	1,342
	26,274	11,836

Movement in the allowance for doubtful debts:

	2010 US$'000	2009 US$'000
Balance at beginning of the year	956	1,233
Impairment losses recognised on receivables	126	214
Amounts recovered during the year	(645)	(508)
Exchange adjustments	82	17
Balance at end of the year	519	956

23. TRADE AND OTHER PAYABLES

	2010	2009
	US$'000	US$'000
Trade payables	**1,066,162**	1,162,781
Accruals and other payables	**334,988**	359,968
	1,401,150	1,522,749

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

	2010	2009
	US$'000	US$'000
0 – 90 days	**1,048,599**	1,152,835
91 – 180 days	**9,213**	2,888
181 – 360 days	**3,521**	1,854
Over 360 days	**4,829**	5,204
	1,066,162	1,162,781

24. BANK BORROWINGS

	2010 US$'000	2009 US$'000
Proceeds from bills receivables discounted with recourse	–	40,348
Bank loans	862,213	322,291
	862,213	362,639
Analysis of bank borrowings by currency:		
US$	816,470	322,291
Euro	45,743	–
Renminbi	–	40,348
	862,213	362,639

The bank borrowings as at 31 December 2010 are unsecured, obtained with original maturity of three to six months and carry interest at fixed interest rates ranging from 0.67% to 1.89% (2009: 0.35% to 1.58%) per annum. The weighted average effective interest rate on the bank borrowings is 1.11% per annum (2009: 0.62% per annum).

As at 31 December 2010, the Group factored intercompany bills receivables of US$nil (2009: US$29,875,000) arising from intercompany transactions to banks with full recourse.

During the year ended 31 December 2010, the interest expense of US$6,665,000 (2009: US$4,505,000) represented the interest on bank borrowings wholly repayable within five years.

25. SHARE CAPITAL

	Number of shares	Amount
		US$'000
Ordinary shares of US$0.04 each, authorised:		
Balance at 31 December 2009 and 31 December 2010	20,000,000,000	800,000
Ordinary shares of US$0.04 each, issued and fully paid:		
Balance at 1 January 2009	7,061,457,995	282,458
Exercise of share options *(note 36(a))*	12,268,150	491
Issue pursuant to a share scheme *(note 36(c))*	26,161,489	1,046
Balance at 31 December 2009	7,099,887,634	283,995
Exercise of share options *(note 36(a))*	33,901,600	1,356
Issue pursuant to a share scheme *(note 36(c))*	30,275,995	1,212
Balance at 31 December 2010	7,164,065,229	286,563

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

26. RESERVES

The Group's special reserve represents the difference between the paid-in capital of the subsidiaries acquired pursuant to group reorganisation in 2004 and the nominal value of the Company's shares issued in exchange therefrom.

The Group's legal reserve represents statutory reserve attributable to the Company's subsidiaries in the PRC and Taiwan. As required by the laws in the PRC and Taiwan, appropriations are made from the profit of these subsidiaries to the legal reserve until the balance reaches 50% of the registered capital of the subsidiaries. This reserve can only be used to make up losses incurred or to increase capital.

27. DERIVATIVES

Currency derivatives

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

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

	2010	2009
Euro	**40,600,000**	24,000,000
US$	**89,223,000**	345,795,000

As at 31 December 2010, the fair value of the Group's currency derivatives is estimated to be approximately US$1,183,000 assets (2009: US$999,000 liabilities), based on the difference between the market forward rate at the end of the reporting period for the remaining duration of the outstanding contracts and their contracted forward rates and discounted using an appropriate discount rate to take into account the time value of money, and is included as other receivables (2009: other payables) at the end of the reporting period. The contracts mainly related to buying of Japanese Yen and US$ with maturities in the first quarter of 2011.

28. DISPOSAL OF SUBSIDIARIES

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

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

28. DISPOSAL OF SUBSIDIARIES *(Continued)*

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

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

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

29. BANK DEPOSITS AND BANK BALANCES AND CASH

Bank deposits carry interest at prevailing market rate of 1.77% (2009: 2.78%) per annum on average, with original maturity of over three months.

Bank balances and cash comprise cash held by the Group and short term bank deposits with an original maturity of three months or less. The deposits carry interest at prevailing market rate of 1.03% (2009: 1.37%) per annum on average.

30. PROVISION

	2010 US$'000	2009 US$'000
At 1 January	23,533	43,290
Exchange adjustments	1,114	(13)
Provision for the year	12,279	19,364
Utilisation of provision	(8,586)	(38,701)
Eliminated on disposal of a subsidiary	–	(407)
At 31 December	28,340	23,533

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

31. DEFERRED INCOME

	2010 US$'000	2009 US$'000
Government subsidies	51,175	52,285
Sale and leaseback transaction	2,636	5,058
	53,811	57,343

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

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

32. CAPITAL COMMITMENTS

	2010 US$'000	2009 US$'000
Commitments for the acquisition of property, plant and equipment contracted but not provided for	**102,242**	76,526

33. OPERATING LEASE ARRANGEMENTS

The Group as lessee

	2010 US$'000	2009 US$'000
Minimum lease payments under operating leases in respect of premises recognised for the year	**20,419**	17,327

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

	2010 US$'000	2009 US$'000
Within one year	**6,030**	9,218
In the second to fifth years inclusive	**5,881**	7,431
Over five years	**48**	1,134
	11,959	17,783

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

The Group as lessor

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

34. RELATED PARTY TRANSACTIONS

(a) During the year, the Group entered into the following transactions with related parties, including Hon Hai, the Company's ultimate holding company, and subsidiaries and associates of Hon Hai other than members of the Group:

	2010 US$'000	2009 US$'000
Hon Hai		
Sales of goods	1,620	382
Purchase of goods	26,542	25,573
Purchase of property, plant and equipment	2,348	2,173
Sales of property, plant and equipment	2,534	2,076
Subcontracting income	3,428	9,650
Consolidated services and subcontracting expense	447	1,628
General service income	641	469
General service expense	1,196	–
Subsidiaries of Hon Hai		
Sales of goods	78,676	48,664
Purchase of goods	289,467	117,412
Purchase of property, plant and equipment	12,286	2,767
Sales of property, plant and equipment	36,872	23,744
Lease income	157	58
Lease expense	3,486	6,638
Subcontracting income	20,747	7,831
Consolidated services and subcontracting expense	25,613	34,657
General service income	5	2,025
General service expense	45,180	34,622
Associates of Hon Hai		
Sales of goods	10,165	50,756
Purchase of goods	172,537	163,288
Purchase of property, plant and equipment	11,001	1,839
Sales of property, plant and equipment	5,925	2,887
Lease income	2,874	2,408
Lease expense	1,251	53
Subcontracting income	3,995	3,342
Consolidated services and subcontracting expense	4,358	3,214
General service income	4,591	3,497
General service expense	12,240	9,372

In addition to the above, the Group also disposed of its subsidiaries to the wholly-owned subsidiaries of Hon Hai in 2009 (see note 28).

34. RELATED PARTY TRANSACTIONS *(Continued)*

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

	2010 US$'000	2009 US$'000
Trade receivables:		
Hon Hai	**1,432**	1,788
Subsidiaries of Hon Hai	**37,307**	27,765
Associates of Hon Hai	**16,359**	21,262
	55,098	50,815
Other receivables:		
Hon Hai	**1,728**	18
Subsidiaries of Hon Hai	**1,786**	1,407
Associates of Hon Hai	**269**	2,134
	3,783	3,559
	58,881	54,374
Trade payables:		
Hon Hai	**8,042**	7,127
Subsidiaries of Hon Hai	**77,973**	56,582
Associates of Hon Hai	**83,582**	61,965
	169,597	125,674
Other payables:		
Hon Hai	**1,591**	150
Subsidiaries of Hon Hai	**550**	1,910
Associates of Hon Hai	**3,841**	1,199
	5,982	3,259
	175,579	128,933

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

34. RELATED PARTY TRANSACTIONS *(Continued)*

(c) Compensation of key management personnel

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

	2010	2009
	US$'000	US$'000
Short-term benefits	2,219	3,240
Share-based payments	3,275	1,341
	5,494	4,581

35. RETIREMENT BENEFITS PLANS

Majority of the employees of the Company's subsidiaries are members of state-managed retirement benefit schemes operated by the government in the PRC. These subsidiaries in the PRC are required to contribute a specified percentage ranging from 5% to 20% of their payroll costs to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the specified contributions.

Certain subsidiaries of the Company operate defined benefit plans in Taiwan and Korea. Under the schemes, the employees are entitled to retirement benefits on attainment of a retirement age ranging from 55 to 60. The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 31 December 2010 by Greatfine Wealth Management Consulting Inc. and Hewitt Associates LLC. respectively. The present values of the defined benefit obligation, the related current service cost and past service cost were measured using the projected unit credit method.

The main actuarial assumptions used were as follows:

	2010	2009
Discount rate	1.75% – 5.50%	2.00% – 6.10%
Expected return on plan assets	1.75% – 4.50%	2.00% – 5.30%
Expected rate of salary increases	3.00% – 5.00%	2.00% – 5.00%
Future pension increases	–	–

The actuarial valuation showed that the market value of plan assets was US$5,472,000 (2009: US$6,285,000) and that the actuarial value of these assets represented 69% (2009: 98%) of the benefits that had accrued to members.

35. RETIREMENT BENEFITS PLANS *(Continued)*

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

	2010 US$'000	2009 US$'000
Current service cost	1,205	890
Interest cost	191	147
Expected return on plan assets	(206)	(126)
Net actuarial losses (gains)	381	(80)
	1,571	831

Of the charge for the year, US$1,571,000 (2009: US$831,000) has been included in administrative expenses.

The actual return on plan assets was US$182,000 (2009: US$170,000) as at 31 December 2010.

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

	2010 US$'000	2009 US$'000
Present value of funded defined benefit obligations	7,940	6,723
Fair value of plan assets	(5,472)	(6,285)
Deficit	2,468	438
Net actuarial losses and gains not recognised	(1,645)	241
Past service cost not recognised	–	–
Net liability arising from defined benefit obligations (included in other payables)	823	679

The Group also operates a number of defined contribution schemes in other overseas locations. Arrangements for these staff retirement benefits vary from country to country and are made in accordance with local regulations and custom.

36. SHARE-BASED PAYMENT TRANSACTIONS

(a) Equity-settled share option scheme

On 12 January 2005, the Company adopted a share option scheme (the "Option Scheme") for the primary purpose of attracting skilled and experienced personnel and incentivising them to remain with the Group. Under the Option Scheme, the board of directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company. Additionally, the Company may, from time to time, grant share options to third party service providers for services provided by them to the Group. The Option Scheme will expire on 3 February 2015.

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

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

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

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

Options granted must be taken up within 30 days after the date of offer, upon payment of HK$1.0 per an offer. The Option Scheme does not contain any minimum period for which an option must be held before it can be exercised, though such minimum period may be specified by the board of directors of the Company at the time of grant. The exercise price is determined by the board of directors of the Company, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant; and (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

Details of specific categories of options are as follows:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

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

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

The following table discloses movements of the Company's share options held by employees during the year ended 31 December 2010:

Option type	Outstanding at 1.1.2010	Granted during year	Exercised during year	Lapsed during year	Cancelled during the year	Expired during the year	Outstanding at 31.12.2010
2005	262,431,013	–	(33,901,600)	(3,391,908)	(78,400)	–	225,059,105
2007A	2,400,000	–	–	–	–	–	2,400,000
	264,831,013	–	(33,901,600)	(3,391,908)	(78,400)	–	227,459,105

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

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

171,517,825 (2009: 150,281,253) share options are exercisable as at 31 December 2010.

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

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

In respect of the share options exercised during the year ended 31 December 2010, the weighted average share price at the dates of exercise is US$1.23 (equivalent to HK$9.59).

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

The Group recognised total expense of US$4,018,000 (2009: US$4,964,000) for the year ended 31 December 2010 in relation to the share options granted by the Company.

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

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

Because the Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share prices, changes in subjective input assumptions can materially affect the fair value estimate.

Expected volatility for Option 2005 was determined by calculating the historical volatility of the Company's share price over the period from 3 February 2005 (date of listing) to grant date, and expected volatility for Option 2007A was determined by calculating the historical volatility of the Company's share price over past 12 months to grant date. The expected life in the model has been adjusted, based on management's best estimate, for the effect of non transferability, exercise restrictions and behavioral considerations.

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

(b) Cash-settled share-based payments

The Group issued to certain employees share appreciation rights ("SAR") at exercise prices ranging from HK$3.96 to HK$26.05 with vesting period ranging from one to three years from the grant date. The SARs require the Group to pay the intrinsic value of the SAR to the employee at the date of exercise. During the year, the Group was recorded total expenses of US$11,000 (2009: US$190,000). All of the SARs have expired during the current year and no liabilities have been recorded by the Group at 31 December 2010 (2009: US$313,000). The fair value of the SARs is determined using the Black-Scholes pricing model with expected volatility of 76.51%, risk free rate of 4.33% and dividend yield of 0% as at 31 December 2009.

(c) Other share-based payment plan

Pursuant to a share scheme adopted by the Company on 12 January 2005 and amended by shareholders' resolution and the board resolution dated 4 August 2006 and 29 October 2009 respectively, (the "Share Scheme"), the Company may grant free shares to the directors or employees of the Company or its subsidiaries or third party service providers including employees of Hon Hai and any of its subsidiaries.

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

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

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

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

Pursuant to the approval of the board of directors of the Company on 27 April 2010, the Company offered 9,435,264 ordinary shares to certain employees pursuant to the Share Scheme. The shares were granted without lock-up period. No consideration is payable on the grant of the shares and the shares were subsequently issued on 6 May 2010.

Pursuant to the approval of the board of directors of the Company on 19 November 2010, the Company offered 25,616,428 ordinary shares to certain employees pursuant to the Share Scheme. The shares were granted without lock-up period. No consideration is payable on the grant of the shares. 20,840,731 ordinary shares were subsequently issued on 25 November 2010 and 4,775,697 ordinary shares were purchased by trustee of the Share Scheme from the stock market in November 2010.

Pursuant to the approval of the board of directors of the Company on 29 December 2010, the Company offered 35,573,029 ordinary shares to certain employees pursuant to the Share Scheme. The shares were granted without lock-up period. No consideration is payable on the grant of the shares and 35,354,446 ordinary shares were subsequently issued on 4 January 2011 and 218,583 ordinary shares were purchased by trustee of the Share Scheme from the stock market in January 2011.

The Group recognised total expense of US$51,911,000 (2009: US$27,234,000) for the year ended 31 December 2010 in relation to the ordinary shares awarded by the Company under the Share Scheme.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

37. PLEDGE OF ASSETS

At the end of the reporting period, a subsidiary of the Company has pledged its property, plant and equipment having a carrying value of approximately US$3,016,000 (2009: US$5,751,000) to secure general banking facilities granted to the Group.

38. MAJOR NON-CASH TRANSACTIONS

During the year, the Group disposed of certain prepaid lease payments at a carrying amount of US$28,795,000. A receivable of the equivalent amount has been recorded as deposit paid for acquisition of prepaid lease payments as at 31 December 2010.

There was no major non-cash transaction in 2009.

39. PRINCIPAL SUBSIDIARIES

The Company has the following principal subsidiaries as at 31 December 2010 and 2009:

Name of subsidiary	Form of business structure	Place of incorporation/ establishment	Issued and paid-up share capital/ registered capital	Attributable equity interest held by the Company				Principal activities
				Directly		Indirectly		
				2010	2009	2010	2009	
CMCS	Limited company	Taiwan	NT$1,500,000,000	-	–	76.332%	76.332%	Design and manufacture of handsets
Eliteday Enterprises Limited	Limited company	British Virgin Islands ("BVI")	US$1	-	–	100%	100%	Trading of handsets
Extra Right Enterprises Limited	Limited company	BVI	US$1	-	–	100%	100%	Provision of services to group companies
FIH (HongKong) Limited	Limited company	Hong Kong	HK$1	-	–	100%	100%	Trading of handsets
FIH Co., Ltd.	Limited company	Taiwan	NT$1,000,000	100%	100%	-	–	Provision of services to group companies

39. PRINCIPAL SUBSIDIARIES *(Continued)*

Name of subsidiary	Form of business structure	Place of incorporation/ establishment	Issued and paid-up share capital/ registered capital	Attributable equity interest held by the Company Directly 2010	Directly 2009	Indirectly 2010	Indirectly 2009	Principal activities
Foxconn DK ApS	Limited company	Denmark	DKK2,100,000	–	–	100%	100%	Research development and project management
FIH Europe Limited Liability Company	Limited company	Hungary	HUF2,000,000,000 (2009: HUF10,039,000,000)	–	–	100%	100%	Manufacture of handsets
Foxconn Mexico Precision Industry, Co. SA de CV.	Limited company	Mexico	MXN2,007,283,685	–	–	100%	100%	Manufacture of handsets
Foxconn Oy	Limited company	Finland	EUR1,558,800	–	–	100%	100%	Manufacture of handsets
富士康精密組件(北京)有限公司 (Foxconn Precision Component (Beijing) Co., Ltd.)	Wholly foreign owned enterprise	PRC	US$68,800,000	–	–	100%	100%	Manufacture of handsets
宏訊電子工業(杭州)有限公司 (Honxun Electrical Industry (Hangzhou) Co., Ltd.)	Wholly foreign owned enterprise	PRC	US$126,800,000 (2009: US$106,800,000)	–	–	100%	100%	Manufacture of handsets
深圳富泰宏精密工業有限公司 (Shenzhen Futaihong Precision Industrial Co., Ltd.)	Wholly foreign owned enterprise	PRC	US$178,520,000	–	–	100%	100%	Manufacture of handsets
Success World Holdings Limited	Limited company	Hong Kong	HK$388,525,000	100%	100%	–	–	Investment holding
Sutech Industry Inc.	Limited company	USA	US$10,000	–	–	100%	100%	Provision of logistics services to group companies
富士康(天津)精密工業有限公司 (Foxconn (Tian Jin) Precision Industry Co., Ltd.)	Wholly foreign owned enterprise	PRC	US$52,800,000	–	–	100%	100%	Manufacture of handsets

39. PRINCIPAL SUBSIDIARIES *(Continued)*

Name of subsidiary	Form of business structure	Place of incorporation/ establishment	Issued and paid-up share capital/ registered capital	Attributable equity interest held by the Company Directly 2010	Directly 2009	Indirectly 2010	Indirectly 2009	Principal activities
Foxconn do Brasil Indùstria e Comércio de Eletrônicos Ltda.	Limited company	Brasil	BRL$550,532,590 (2009: BRL$370,369,598)	–	–	**100%**	100%	Manufacture of handsets
Foxconn India Private Limited	Limited company	India	INR2,349,681,000 (2009: INR2,323,830,000)	–	–	**100%**	100%	Manufacturing, import export, distribution and assembly
富士康精密電子(太原)有限公司 (Foxconn Precision Electronics (Taiyuan) Co., Ltd.)	Wholly foreign owned enterprise	PRC	US$130,500,000 (2009: US$85,500,000)	–	–	**100%**	100%	Manufacture of handsets
富泰京精密電子(北京)有限公司 (Futaijing Precision Electronics (Beijing) Co., Ltd.)	Wholly foreign owned enterprise	PRC	US$75,000,000	–	–	**100%**	100%	Manufacture of handsets
富士康精密電子(廊坊)有限公司 (Foxconn Precision Electronics (Langfang) Co., Ltd.)	Wholly foreign owned enterprise	PRC	US$230,500,000 (2009: US$99,000,000)	–	–	**100%**	100%	Manufacture of handsets
Foxconn Reynosa S.A. De C.V.	Limited company	Mexico	MXN50,000	–	–	**100%**	100%	Manufacture of handsets
FIH Technology Korea Ltd.	Limited company	Korea	KRW7,756,700,000 (2009: KRW51,700,000)	–	–	**100%**	100%	Research development and project management
KSB International Limited	Limited company	Korea	KRW50,000,000	–	–	**100%**	100%	Provision of logistics services to group companies

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

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

40. FINANCIAL INFORMATION OF THE COMPANY

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

	2010 US$'000	2009 US$'000
ASSETS		
Investments in subsidiaries	1,227,901	1,080,718
Other receivables	46	46
Prepayments	1,985	–
Amounts due from subsidiaries	1,551,678	1,211,204
Bank balances and cash	6,144	14,964
	2,787,754	2,306,932
LIABILITIES		
Bank borrowings	512,390	–
Other payables	5,493	849
Amounts due to subsidiaries	523,249	637,765
	1,041,132	638,614
NET ASSETS	1,746,622	1,668,318
CAPITAL AND RESERVES		
Share capital	286,563	283,995
Share premium	776,191	721,156
Reserves	683,868	663,167
Total equity	1,746,622	1,668,318

Under the Company Law (Revised) Chapter 25 of the Cayman Islands, the share premium of the Company is available for distribution or paying dividends to shareholders subject to the provisions of its memorandum or articles of association and provided that immediately following the distribution of dividends, the Company is able to pay its debts as they fall due in the ordinary course of business. At the end of the reporting period, the Company's reserve available for distribution amounted to US$1,374,899,000 (2009: US$1,320,630,000), consisted of share premium of approximately US$776,191,000 (2009: US$721,156,000) and retained profits of approximately US$598,708,000 (2009: US$599,474,000).

41. EVENTS AFTER THE REPORTING PERIOD

On 18 March 2011, Grand Champion Trading Limited ("Grand Champion"), an indirect wholly-owned subsidiary of the Group, and Prime Rich Holdings Limited ("Prime Rich"), an indirect wholly-owned subsidiary of Hon Hai, entered into an equity transfer agreement, pursuant to which Grand Champion has agreed to sell and Prime Rich has agreed to purchase, the entire equity interest of 富士康精密電子(太原)有限公司 (Foxconn Precision Electronics (Taiyuan) Co., Ltd.) ("Foxconn Precision") at a cash consideration of RMB463,274,241 which is determined by reference to the net asset value of Foxconn Precision as at 31 December 2010 of RMB409,352,368 and adjusted for the valuation surplus of RMB53,921,873 in respect of properties held by Foxconn Precision.

The completion of transaction is subject to the approval from the relevant government authorities and the approval from independent shareholders in the forthcoming extraordinary shareholders' meeting.

FINANCIAL SUMMARY

	For the year ended 31 December				
	2006 (US$'million)	2007 (US$'million)	2008 (US$'million)	2009 (US$'million)	**2010 (US$'million)**
Results					
Turnover	10,381.24	10,732.32	9,271.04	7,213.63	**6,626.00**
(Loss) profit from operations	798.75	786.73	229.21	73.55	**(169.46)**
Interest expenses	(13.29)	(31.19)	(31.81)	(4.51)	**(6.67)**
Gain on disposal of subsidiaries	–	–	–	2.40	**–**
(Loss) profit before tax	785.46	755.54	197.40	71.44	**(176.13)**
Income tax expense	(67.61)	(30.06)	(75.47)	(31.81)	**(43.64)**
(Loss) profit after tax and before non-controlling interests	717.85	725.48	121.93	39.63	**(219.77)**
Non-controlling interests	0.19	(4.06)	(0.82)	(1.04)	**1.45**
Net (loss) profit for the year	718.04	721.42	121.11	38.59	**(218.32)**

	As at 31 December				
	2006 (US$'million)	2007 (US$'million)	2008 (US$'million)	2009 (US$'million)	**2010 (US$'million)**
Assets and liabilities					
Total assets	4,502.41	6,706.22	5,527.74	5,635.11	**6,017.35**
Total liabilities	(2,121.41)	(3,381.05)	(2,072.23)	(2,027.64)	**(2,424.32)**
Non-controlling interests	(12.02)	(16.18)	(34.18)	(35.68)	**(46.00)**
Capital and reserves	2,368.98	3,308.99	3,421.33	3,571.79	**3,547.03**

CORPORATE GOVERNANCE REPORT

The Company has complied with all the code provisions set out in the CCGP throughout the accounting year ended 31 December 2010 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 great volatility with the handset industry ecosystem and consumer preference trend, 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. The Company has also introduced a new executive director to the Board in 2010 to enhance the leadership.

THE BOARD

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

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

Executive directors
Chin Wai Leung, Samuel *(Chairman and Chief Executive Officer)*
Chih Yu Yang
Lee Jer Sheng (appointed on 8 June 2010)

Non-executive directors
Chang Ban Ja, Jimmy
Gou Hsiao Ling
Lee Jin Ming
Lu Fang Ming (resigned on 8 June 2010)

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

CORPORATE GOVERNANCE REPORT

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

Name of director	Number of Board meetings attended in 2010
Chin Wai Leung, Samuel	8/8
Chih Yu Yang	8/8
Lee Jer Sheng	5/5
Chang Ban Ja, Jimmy	6/8
Gou Hsiao Ling	8/8
Lee Jin Ming	6/8
Lau Siu Ki	8/8
Daniel Joseph Mehan	8/8
Chen Fung Ming	8/8
Lu Fang Ming	3/3

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

CHAIRMAN

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

APPOINTMENT, RE-ELECTION AND REMOVAL OF DIRECTORS

The Company entered into a letter of appointment with each of the non-executive directors for a term of three years commencing from 1 November 2008, 24 July 2010 and 1 December 2010 respectively subject to re-election at each annual general meeting of the Company in accordance with article 112 of the Articles. All the directors of the Company are subject to retirement by rotation at least once every three years in accordance with such article 112.

CORPORATE GOVERNANCE REPORT

REMUNERATION COMMITTEE

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

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

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

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

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

Name of director	**Number of remuneration committee meetings attended in 2010**
Lau Siu Ki	4/4
Lee Jin Ming	2/4
Daniel Joseph Mehan	4/4

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE

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

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

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

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

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

Name of director	**Number of audit committee meetings attended in 2010**
Lau Siu Ki	3/3
Lee Jin Ming	2/3
Daniel Joseph Mehan	3/3

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

CORPORATE GOVERNANCE REPORT

NOMINATION OF DIRECTORS

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

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

AUDITOR'S REMUNERATION

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

During the year, US$1,339,000 paid to the Company's auditor, Deloitte Touche Tohmatsu for audit services and US$152,000 for other services.

DIRECTORS' RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

ACCOUNTABILITY AND AUDIT

The Board is responsible for overseeing the preparation of financial statements of each financial period, which give a true and fair view of the financial position and operating results of the Group. In preparing the financial statements for the year ended 31 December 2010, the directors have selected suitable accounting policies and have applied them in a consistent manner, have made reasonable judgments and estimates, and have prepared the financial statements on a going-concern basis.

CORPORATE GOVERNANCE REPORT

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

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

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

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

CORPORATE GOVERNANCE REPORT

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules. Following specific enquiry made by the Company, all the directors of the Company have confirmed that they have complied with the required standards set out in the Model Code throughout the year ended 31 December 2010.

EFFECTIVE COMMUNICATION

At the 2010 annual general meeting, separate resolutions were proposed for shareholders' consideration and approval in respect of each of the key matters, including the re-election of directors, which required approval by the shareholders.

The chairman of the Board and a delegate duly appointed by the chairman of the audit committee and the remuneration committee attended the 2010 annual general meeting to answer questions from the shareholders at the meeting.

VOTING BY POLL

At the 2010 annual general meeting, the procedures for conducting a poll was explained by the chairman of the Board at the meeting.