FIH®

FOXCONN INTERNATIONAL HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2038

ANNUAL REPORT **2007**

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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

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

NON-EXECUTIVE DIRECTORS

CHANG Ban Ja, Jimmy
GOU Hsiao Ling
LEE Jin Ming
LU Fang Ming

INDEPENDENT NON–EXECUTIVE DIRECTORS

LAU Siu Ki
MAO Yu Lang
Daniel Joseph MEHAN

COMPANY SECRETARY

TANG Wan Mui

REGISTERED OFFICE

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

HEAD OFFICE

2, 2nd Donghuan Road
10th Yousong Industrial District
Longhua, Baoan
Shenzhen City, Guangdong Province
People's Republic of China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

AUDITORS

Deloitte Touche Tohmatsu

LEGAL ADVISOR

Norton Rose

PRINCIPAL BANKERS

Agricultural Bank of China
Bank of America, N.A.
Bank of China
China Construction Bank
China Merchant Bank
Chinatrust Commercial Bank
Citibank N.A.
Industrial and Commercial Bank of China
ING Bank N.V.
Standard Chartered Bank
Taipei Fubon Bank
Taishin International Bank

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (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
Wanchai
Hong Kong

STOCK CODE

2038

CHAIRMAN'S STATEMENT

Dear Shareholders,

Your Foxconn International Holdings Limited ("FIH") continues to make significant progress in 2007. We have broadened our customer base to serve the top 5 mobile device providers in the world, with a combined world market share of approximately 80%. A more diversified customer base coupled with a stronger and deeper relationship with our customers have enabled FIH to better cushion the impact where one customer experienced market difficulties due to factors such as organizational and portfolio transitions. Our diversification efforts continue since we believe that FIH's significant business scale offers much intrinsic advantages that will set us apart from our competitors, especially when we enter a period of global economic uncertainty.

On behalf of our global management team, it is my pleasure to present to you the operating results of FIH for the financial year ended 31 December 2007.

Revenue for the year reached US$10,732 million, which represents an increase of US$351 million, or 3.38% over the prior year revenue of US$10,381 million. Net profit for the year was US$725 million, representing an increase of 0.97% over the prior year amount of US$718 million. Basic earnings per share for the year were US10.27 cents.

In 2007, we witnessed the strong momentum of the handset industry with FIH as a major player and the leader. With continued growth and opportunities in this industry, we also see increased competition. Players that previously focused exclusively in the PC or consumer electronics industries have expanded their coverage to the handset industry due to the convergence of these three industries. Despite the intensifying competition and the increased pricing pressure, we are proud to have achieved record setting revenues and profits.

Our strategy of vertical integration and the "one-stop shopping" model have been well received by our customers, especially in time of uncertainty. This strategy has been instrumental to FIH in growing our customer base and providing our customers with a cost-effective way of managing a complex supply chain. Further proof of the success in our strategy is evidenced by the many mergers and consolidations that have taken place in order to duplicate this winning formula. Our pursuit of broader and deeper vertical integration remains a high priority, and we have reorganised internally to ensure that we have the best resources and appropriate infrastructure to support this objective. Where necessary, we have acquired or invested in other entities to strengthen our capabilities. Our investment in a Korea-based technology company, with key intellectual property, enables us to integrate additional components such as mid-to-high-end hinge mechanisms, metal decoration, and vibration motors, in addition to providing a presence in Korea to serve the Korea-based customers. Our investment in a Taiwan-based technology company enhances our metal surface treatment capabilities. Our internal undertakings plus our external investments have ensured that FIH maintains its dominant position and will be years ahead of our competitors in vertical integration capabilities.

CHAIRMAN'S STATEMENT

Intellectual property, including know-how and business secrets, are key assets to any enterprise, especially within a competitive environment. I have a responsibility to the FIH shareholders to protect FIH's intellectual property, and as for our valued customers, I need to demonstrate to them the FIH top management's commitment to protect and to prevent infringement of any intellectual property and confidential information belonging to FIH. For these reasons, I will continue to take whatever actions necessary, including both criminal and civil proceedings, against any party to fulfill my responsibilities to FIH's shareholders and customers.

In 2007, we maintained our focus on operational excellence for all of our sites. Due to the dynamic and fast changing marketing landscape, we are constantly monitoring and making necessary adjustments to our global resources. As the result, during 2007, we had divested our Michigan operation to streamline our global operations. Our speed and flexibility in realigning our global resources according to strategic partners' needs is another example of our operational excellence. Due to increasing labor costs in certain locations, automation and search for more efficient manufacturing techniques become more critical. Moreover, efficiency and productivity are more essential than ever when faced with rapid and frequent currency fluctuations, making hedging activities more risky and difficult.

It is important to note that the term "outsourcing" has taken on broader coverage. It is abundantly clear that significantly more engineering, including both hardware and software, activities are being outsourced. FIH has actively responded towards this market direction. We have dramatically increased our engineering headcount in all disciplines, but particularly in the product developing teams in Taiwan, Korea and Mainland China. We established a state-of-the-art testing laboratory in Beijing that became operational in the latter part of 2007. We also established an expansive software center in Nanjing offering varying programming capabilities. These expenditures do not provide immediate returns, but are necessary to ensure that FIH has the talent to cope with the technology advances and the engineering demands of our customers. We are confident these investments will provide a good return to our shareholders.

Looking ahead, there are tremendous opportunities in 2008. Where there are opportunities, there are challenges such as increased competition from new players, global macro environment, uncertainty stemming from the U.S. sub-prime crisis, management of additional new sites, stringent environmental requirements, and accommodating additional demands of customers. Our experienced management team supplemented by additions of new talents will relentlessly drive for continuous improvement for a successful 2008.

On behalf of the management team, I would like to take this opportunity to express our gratitude to those who have made our success in 2007 possible, despite a challenging environment, including but not limited to all members of the FIH board of directors for their valuable input and critical analysis, all employees for their hard work, and the families of the employees for their patience and sacrifices.

CHAIRMAN'S STATEMENT

FIH is fortunate to be partners with the top-tier customers in the world. We are thankful for their support and we are motivated to continue 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 as ever to do our utmost in maximizing the value of FIH.

With best regards,

Chin Wai Leung, Samuel
Chairman and Chief Executive Officer

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF RESULTS AND OPERATIONS

The year 2007 was marked by some major changes to the handset industry and to the Company. Despite the fact that the industry witnessed significant shifts in market share among global OEM brands and the volatile customer demands made major impacts on the industry, due to our ability to further diversify our customer base and mitigate market and customer risks, revenue for the year 2007 reached US$10,732 million, which represents an increase of US$351 million, or 3.38% over the prior year revenue of US$10,381 million. Net profit for the year 2007 was US$725 million, representing an increase of 0.97% over the prior year amount of US$718 million. Basic earnings per share for the year 2007 were US10.27 cents.

Although global handset shipment in 2007 exceeded one billion, consolidation pressure intensified in the competitive global handset OEM market. Coupled with entry of new players resulting from the continual 3C convergence and with uncertain global economic environment triggered by the sub-prime crisis in the U.S., our eCMMS model has continued to be highly appreciated by our existing and new customers. Our integration of mechanical and electrical engineering capabilities, augmented by our affiliate, the Hon Hai group of companies' optical capabilities, channel expertise and in-depth 3C understanding, has proven to be instrumental in helping our customers cope better with shorter handset product life cycles and ever demanding innovative handset product designs.

To augment our abilities in satisfying key customers' changing needs, we aggressively expanded both the depth and scope of our technology teams' capabilities and intellectual properties through mergers and acquisitions; our investment in the Korea-based hinge leader is a perfect example – Diabell Co., Ltd. has not only brought in the much coveted mid-to-high-end hinge, metal decoration, key pad, window lens and vibration motor expertise, but also enabled our growing presence and relationship in Korea, home to two of the top five OEMs in the world. Being attentive to our key customers' changing needs and coping with dynamic shifts in the market resulting from consumers' capricious tastes and elusive demands have continued to be a major focus of our business strategy. Aside from research and development and technology capability expansion, our design centers in Taipei, Beijing, Nanjing and Seoul have also experienced significant increase in their capacity to support customers. We will continue to expand both the depth and scope of capabilities and services to our key customers and strive to be the partner of choice for our customers' technically demanding projects.

To optimise our operation, we also continuously examine and allocate our resources by focusing on our core strengths. We continue to view divestiture and optimisation of non-core business just as important as building capabilities for our customers. During 2007, we divested our Michigan operation as part of our worldwide operations streamlining. We will continue to re-align our global resources deployment according to strategic customers' needs.

MANAGEMENT DISCUSSION AND ANALYSIS

In 2008, the global handset market and global economy remain volatile and dynamic. We believe our unique value, coupled with our affiliation with the Hon Hai group of companies will continue to be greatly appreciated by our customers; speed in product development, volume ramp-up, engineering services, and scale of global operations match perfectly with our customers' specific needs. Our affiliation with the Hon Hai group of companies provides the added benefit in light of the growing dominance of the Hon Hai group of companies in many 3C key components. We are excited by the growth opportunities ahead of us and will continue to execute our success formula to further enhance our vertical integration capabilities and service quality to our ever expanding customer base. We are confident that we can continue to grow our customer base. We believe the handset outsourcing trend will intensify and we will be able to develop much more closer relationships with our customers.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2007, we had a cash balance of US$1,255 million. The cash balance is expected to finance our working capital and capital expenditure plans in light of our continuing rapid growth. Our gearing ratio, expressed as a percentage of interest bearing external borrowings of US$978 million over total assets of US$6,706 million, was 14.58%.

Net cash generated from operating activities for the full year period ended 31 December 2007 was US$763 million.

Net cash used in investing activities for the full year period ended 31 December 2007 was US$1,064 million. Our expenditures for investing activities were for property, plant and equipment related to our facilities in our major sites in China, India, Mexico, etc.

Net cash from financing activities for the full year period ended 31 December 2007 was US$875 million, primarily due to net increase in bank loans of US$831 million and proceeds of US$44 million from the issue of shares upon the exercise of share options for such period.

EXPOSURES TO CURRENCY RISK AND RELATED HEDGES

In order to mitigate the foreign currency fluctuations, the Company and its subsidiaries (collectively, "Group") actively utilising natural hedge technique manages its foreign currency exposures by non-financial methods, such as managing the transaction currency, leading and lagging payments, receivable management, etc.

In addition, the Group sometimes obtains bank loans in various foreign currencies and enters into short-term foreign currency forward contracts (less than 3 months) for hedging purpose. The Group utilises a variety of foreign currency forward contracts to hedge its exposure to foreign currencies as well.

MANAGEMENT DISCUSSION AND ANALYSIS

CAPITAL COMMITMENTS

As at 31 December 2007, the capital commitment of the Group was US$207.99 million (2006: US$57.39 million). Usually, the capital commitment will be funded by profits generated from operations.

PLEDGE OF ASSETS

A subsidiary of the Company has pledged its corporate assets of approximately US$5.9 million (2006: US$4.6 million) to secure general banking facilities granted to the Group.

SIGNIFICANT INVESTMENTS

In 2007, we invested in key sites in Asia and other regions to enhance our capabilities and capacities to serve our customers. These investments were instrumental in gaining more businesses, and further enhanced our working partnerships with our key customers. We expect to continue such investments in 2008.

OUTLOOK

Looking forward, though the gap between ourselves and our competitors has continued to widen, we are keenly aware of increased competition in the handset manufacturing business and complexity due to consumer demand changes and emergence of new technologies. We are eager to further strengthen our partnerships with existing customers as well as diversify our customer base. With this vision in mind, we will continue to expand our manufacturing bases in Langfang and Taiyuan in Mainland China as well as India. We will also continue to invest in research and development, engineering resources and new process technologies. With fundamental market growth intact, we are looking forward to another year of growth in 2008.

EMPLOYEES

As at 31 December 2007, the Group had a total of 123,917 (2006: 110,697) employees. Total staff costs incurred during the year 2007 amounted to US$464.52 million (2006: US$377.04 million). The Group offers a comprehensive remuneration policy which is reviewed by the management on a regular basis.

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

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

CHIN Wai Leung, Samuel, aged 57, joined the Company as Chairman and Chief Executive Officer in July 2003. Mr. Chin joined Hon Hai Precision Industry Company Limited ("Hon Hai"), a company listed on the Taiwan Stock Exchange Corporation and the ultimate controlling shareholder of the Company, and its subsidiaries ("Hon Hai Group") in 2000, and had been one of the principal managers responsible for the handset manufacturing services business of the Hon Hai Group since July 2000, which is now wholly-owned and operated by the Company. He is also a director of Success World Holdings Limited, Foxconn Oy and FIH Co., Limited. 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 23 years of marketing, sales and operational experience in the global computer and electronics industries, he has worked in an international environment. Mr. Chin was awarded a Juris Doctor degree from the University of Pennsylvania Law School in 1976 and a Bachelor of Science degree in Economics from Wharton School, University of Pennsylvania, US in 1973.

Dr. DAI Feng Shuh, aged 56, joined the Company as Chief Operating Officer in February 2004. Dr. Dai joined the Hon Hai Group in July 1997, and had been one of the principal managers responsible for the handset manufacturing services business of the Hon Hai Group since March 2000, which is now wholly-owned and operated by the Company. He is also a director of principal operating subsidiaries of the Company, namely Foxconn Precision Component (Beijing) Co., Ltd., Shenzhen Futaihong Precision Industrial Co., Ltd. and Honxun Electrical Industry (Hangzhou) Co., Ltd. as well as Success World Holdings Limited, S&B Industry, Inc., FIH Co., Limited, Foxconn India Private Limited and Foxconn India Developer Private Limited. Before joining the Company, Dr. Dai was a general manager for the PC Enclosure Group of Hon Hai and prior to that, he held production engineering management positions with Toyota–Aisin Precision Instruments in Kentucky, the US, Thailand and Indonesia. With over 23 years of experience in production engineering and international business management, Dr. Dai has been instrumental in the growth of the Company since its inception. Dr. Dai received a Ph.D. in Mechanical Engineering from University of Tokyo, Japan in 1984.

CHANG Ban Ja, Jimmy, aged 64, 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 32 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 MBA from Santa Clara University, California, US in 1970.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

GOU Hsiao Ling, aged 28, 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 was previously also a tax consultant at PricewaterhouseCoopers in Taipei, Taiwan and an analyst with Goldman Sachs International Limited, and has over 5 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 of Hon Hai. Mr. Gou is the present chairman of the board of directors and president of Hon Hai.

LEE Jin Ming, aged 55, joined the Company as a non-executive Director in December 2004. He is also the chief accounting officer of Hon Hai. Prior to joining Hon Hai in October 1997, Mr. Lee was a senior financial manager with Philips and Chase Manhattan Bank. He is a director of Foxconn (Far East) Limited. Mr. Lee has over 28 years of banking, corporate finance and accounting related international financial experience. Mr. Lee obtained a Bachelor of Arts degree from the National Chengchi University, Taiwan in 1974.

LU Fang Ming, aged 53, joined the Company as a non-executive Director in December 2004. He has been a director, an executive vice president and a general manager of Hon Hai since the intelligent hub and switch products ODM manufacturing company he founded was acquired by Hon Hai in May 2000. Prior to joining Hon Hai, he was a vice president and general manager at Cirrus Logic/Crystal Semiconductor in charge of its Asia Pacific operations. Prior to that, Mr. Lu spent 20 years with Hewlett-Packard in various positions including general manager of the HP Taiwan Computer System Group and QMS director of the HP Asia Pacific Test & Measurement Group. Mr. Lu graduated from Chung-Yuan University, Taiwan in 1980.

LAU Siu Ki, aged 49, joined the Company as an independent non-executive Director in December 2004. With over 25 years of experience in corporate finance, financial advisory and management, accounting and auditing, Mr. Lau is currently a financial advisory consultant running his own management consultancy firm, Hin Yan Consultants Limited. He is also a consultant to the corporate finance division of PCP CPA Limited, a medium sized certified public accountant firm in Hong Kong. Previously, Mr. Lau worked at Ernst & Young for over 15 years. He graduated from Hong Kong Polytechnic in 1981. Mr. Lau is a member of both the Association of Chartered Certified Accountants ("ACCA") and The Hong Kong Institute of Certified Public Accountants. Mr. Lau is now a member of the World Council of ACCA. He has served on the executive committee of the Hong Kong branch of ACCA ("ACCA Hong Kong") since 1995, and was the chairman of ACCA Hong Kong in 2000/2001. During these years, he has helped raising the profile of ACCA. Mr. Lau also serves as an independent non-executive director in Carry Wealth Holdings Limited, COL Capital Limited, Comba Telecom Systems Holdings Limited, Embry Holdings Limited, Greenfield Chemical Holdings Limited, Proview International Holdings Limited, Samson Holding Ltd. and TCL Communication Technology Holdings Limited.

MAO Yu Lang, aged 64, joined the Company as an independent non-executive Director in December 2004. Mr. Mao was respectively the President and CEO of Nortel Networks Greater China and Alcatel-Lucent Greater China during 1995 to 2006. Prior to those positions, Mr. Mao was President and CEO of Alcatel Taisel in Taiwan, a telecom industrial joint venture between Alcatel and Chung Hwa Telecom. Mr.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

Mao is also a director of Winbond Electronics Corp., whose shares are listed on the Taiwan Stock Exchange Corporation, and of Hurray! Holdings Co., Ltd., whose shares are listed at Nasdaq, the US, respectively. He has over 30 years of experience in the telecom and electronics industry. Mr. Mao obtained both a Bachelor of Metallurgical Engineering degree and a Master of Engineering (Materials) degree from Cornell University in the US in 1966 and 1967 respectively. He also received a Degree of Master of Science in Management from Sloan School of Massachusetts Institute of Technology, US in 1972.

Dr. Daniel Joseph MEHAN, aged 63, 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.

SENIOR MANAGEMENT

WU Koa Teh, Gordon, aged 60, joined the Company as senior vice president in July 2003. Prior to that, he was a vice president of Hon Hai starting in October 1998, as one of the principal managers responsible for the handset manufacturing services business. He was also a special assistant to the chief executive officer of Hon Hai, responsible for establishing and developing new business. Mr. Wu has over 30 years of experience in the mechanical engineering field, focusing on the development of computer peripherals, and more than 16 years in the management of desktop PC and PC notebook design. Before joining Hon Hai, Mr. Wu worked at Toshiba America Information Systems, Inc. for 2 years where he managed the research and development team to develop the first desktop PC for Toshiba, and earned an achievement award for best design of the year during his time there. Prior to that, he spent 20 years with Digital Equipment Corporation, working his way from design engineer to engineering manager throughout Asia and Europe. The last position he held at Digital was to start up a notebook research and development team and build the first under one inch thin and light PC notebook in the early nineties. Mr. Wu was awarded a Bachelor of Science in Industrial Engineering from Northeastern University, Illinois, US.

CHEN Hsu Tang, Tom, aged 43, joined the Company as vice president, business development in July 2003 and had been one of the principal managers responsible for the handset manufacturing services business of the Hon Hai Group since October 2001 when he became a vice president of Hon Hai. He is also a director of Foxconn Mexico Precision Industry, Co. SA de CV., one of the Company's principal operating subsidiaries. Mr. Chen joined Hon Hai in December 2000. Mr. Chen has over 18 years of experience in engineering, sales and general management in the telecommunications and components industries. Previously, Mr. Chen was the director of supply chain at Axxion Group Corporation in Texas, US. He was also the founder and chief executive officer of Jefferson Rubber Technologies in Texas, US. He had also worked at International Business Machines Corporation in New York as a telecommunications engineer. Mr. Chen obtained a Master of Science degree in Industrial Engineering from Columbia University, NY, US in 1991.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

CHAO Shan Ping, Henry, aged 51, joined the Company as director of electronic parts production and assembly in June 2004, and had been one of the principal managers responsible for the handset manufacturing services business of the Hon Hai Group since March 2001. He is also a director of the Company's principal operating subsidiary, Honxun Electrical Industry (Hangzhou) Co. Ltd. Before joining the Company, Mr. Chao was with Hon Hai since September 1996 and was responsible for SMT and computer motherboard manufacturing processes. Prior to that, Mr. Chao held various production and engineering management positions with Wang Computer and Delta Electronics. He has over 23 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 45, joined the Company as a director of mechanical production in June 2004, and had been one of the principal managers responsible for the handset manufacturing services business of the Hon Hai Group since July 2000. Mr. Ko has close to 23 years of mechanical engineering and production management experience. Before joining the Company, he was with Hon Hai since July 1992. Prior to that, Mr. Ko held various positions in mechanical engineering and production with Philips and Matsushita Electric (Taiwan) Co. Ltd. Mr. Ko received a Master of Science degree in Mechanical Engineering from National Taiwan University, Taiwan in 1992.

Michael SMITH, aged 43, joined the Company as vice president, Mexico operations in May 2004. Mr. Smith has over 16 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 54, 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 23 years of executive experience in global multinational businesses in the areas of general and financial management, acquisition and integration management and had held directorships with several international companies. Before joining the Company, he served as president and chief executive officer of Foxconn Oy in the mobile telecommunications industry. Prior to that, he was vice president and regional director of Asia and South America of Ahlstrom Group, and was responsible for one of the Ahlstrom Group's global businesses for those regions. Mr. Harju had also served as vice president and chief financial officer of one of the global business groups of Ahlstrom Group being responsible for financial, strategic planning and information technology functions. Mr. Harju received a Master of Science degree from the University of Technology of Lappeenranta, Finland in 1981 and he also completed the International Executive Program at INSEAD, France in 1999.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

HSU Chung Chang, Jonathan, aged 46, 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 18 years of experience working in finance related areas and more than 10 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 MBA in Finance from George Washington University, US in 1993.

TONG Wen Hsin, Vincent, aged 42, joined the Company as director of investments and investor relations in July 2004. Mr. Tong has over 15 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.

TAM Kam Wah, Danny, aged 44, is the Company's qualified accountant. He is also the chief accounting officer of the Company. Mr. Tam joined the Company as senior manager of financial control in October 2004. Mr. Tam has over 20 years of experience in accounting and finance in Hong Kong and US international companies. Prior to joining the Company, he worked as a financial controller for ITT Industries and Hutchison Harbour Ring Ltd., and he also worked as an accounting manager for Coates Brothers (HK) Co. Ltd. Mr. Tam is a fellow of the Association of Chartered Certified Accountants, an associate of Chartered Institute of Management Accountants and an associate of Hong Kong Institute of Certified Public Accountants. Mr. Tam received an BBA from Chinese University of Hong Kong in 1988, a Master of Applied Finance from Macquarie University, Australia in 1994, a MBA 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 52, joined the Company as vice president in July 2007. Dr. Pao has many years of 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 an executive MBA from Michigan State University, US in 1998. Dr. Pao also authored a book on SMT assemblies reliability techniques published by McGraw Hill.

REPORT OF THE DIRECTORS

The board of directors ("Board") of the Company is pleased to announce this annual report, particularly the audited consolidated results of the Group for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of the principal subsidiaries are set out in the financial statements on pages 86 to 88. The Group is a vertically integrated manufacturing services provider for handset industry worldwide. It provides a full range of manufacturing services to its customers in connection with the production of handsets.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2007 are set out in the financial statements on page 27. The Board does not recommend the payment of any dividends in respect of the year ended 31 December 2007.

RESERVES

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

DISTRIBUTABLE RESERVES

As at 31 December 2007, the Company's reserves available for distribution amounted to US$1,360,036,000.

SHARE CAPITAL

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

FINANCIAL SUMMARY

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

PROPERTY, PLANT AND EQUIPMENT

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

BANK LOANS

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

REPORT OF THE DIRECTORS

DIRECTORS

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

Executive Directors

CHIN Wai Leung, Samuel
DAI Feng Shuh

Non-Executive Directors

CHANG Ban Ja, Jimmy
GOU Hsiao Ling
LEE Jin Ming
LU Fang Ming

Independent Non-Executive Directors

LAU Siu Ki
MAO Yu Lang
Edward Fredrick PENSEL (resigned on 24 July 2007)
Daniel Joseph MEHAN (appointed on 24 July 2007)

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

Pursuant to article 112 of the articles of association of the Company ("Articles"), one-third of the directors for the time being (or, if their number is not three or a multiple of three, then the number nearest to, but not exceeding one-third) shall retire from office by rotation at each annual general meeting of the Company provided that every director shall be subject to retirement by rotation at least once every three years. In accordance with article 112 of the Articles, Messrs. Lau Siu Ki, Mao Yu Lang and Dr. 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.

DIRECTORS' INTERESTS IN CONTRACTS

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

REPORT OF THE DIRECTORS

DISCLOSURE OF INTERESTS

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

As at 31 December 2007, the interests and short positions, if any, of each director and chief executive of the Company in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the directors and chief executives were taken or deemed to have under such provisions of the SFO) or which were required to be and are recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or as otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") adopted by the Company were as follows:

Name of director	Name of corporation	Capacity/ Nature of interest	Total number of ordinary shares	Approximate percentage of interest in the Company/ associated corporations
Chin Wai Leung, Samuel	Company	Personal Interest	14,383,275	0.2039%
	Hon Hai	Personal Interest	485,818	0.0077%
Dai Feng Shuh	Company	Personal Interest	21,821,275	0.3094%
	Hon Hai	Personal Interest	303,043	0.0048%
Chang Ban Ja, Jimmy	Hon Hai	Personal Interest	4,290,122	0.0682%
Lee Jin Ming	Hon Hai	Personal Interest	1,353,952	0.0215%
Lu Fang Ming *(Note)*	Hon Hai	Personal Interest	970,058	0.0154%
		Family Interest	700,000	0.0111%
		Through a trust	500,000	0.0079%
Mao Yu Lang	Hon Hai	Personal Interest	644,253	0.0102%

Note: 700,000 shares are beneficially owned by Ms. Chen Hui Ling, the spouse of Mr. Lu Fang Ming, and his child under the age of eighteen. 500,000 shares are held by a trust of which Mr. Lu Fang Ming is the beneficiary. Accordingly, Mr. Lu Fang Ming is deemed to be interested in 700,000 shares which are beneficially owned by Ms. Chen Hui Ling and his child and 500,000 shares which are held by the trust for the purposes of the SFO.

REPORT OF THE DIRECTORS

Save as disclosed above, none of the directors or chief executives of the Company had, as at 31 December 2007, 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 2007, shareholders (other than the directors or chief executives of the Company) who had interests and short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name	Capacity/ Nature of interest	Total number of ordinary shares	Approximate percentage of interest in the Company
Foxconn (Far East) Limited	Beneficial owner	5,081,034,525	72.05%
Hon Hai *(Note)*	Interest of a controlled corporation	5,081,034,525	72.05%

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 2007, the Company had not been notified by any persons (other than the directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would be required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

REPORT OF THE DIRECTORS

CONTINUING CONNECTED TRANSACTIONS

The Group entered into the following continuing connected transactions with Hon Hai, the Company's ultimate controlling shareholder, its subsidiaries or associates (collectively "Hon Hai Group"):

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

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

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

4. Research and development services transactions between the Group and the Hon Hai Group *(Note 4)*;

5. Sub-contracting expense transactions between the Group and the Hon Hai Group *(Note 5)*;

6. Sub-contracting income transactions between the Group and the Hon Hai Group *(Note 6)*;

7. Equipment sale and purchase transactions between the Group and the Hon Hai Group *(Note 7)*;

8. Materials and components supply transactions between the Group and the Hon Hai Group *(Note 8)*;

9. Design service transactions between the Group and the Hon Hai Group *(Note 9)*;

10. Lease income transactions between the Group and the Hon Hai Group *(Note 10)*; and

11. General services income transactions between the Group and the Hon Hai Group *(Note 11)*.

Notes:

1. This refers to the sale of certain products to the Hon Hai Group by the Group pursuant to the framework product sales agreement dated 18 January 2005 (as amended by the supplemental agreements dated 28 February 2006 and 24 October 2007 respectively) for an extended term commencing from 1 January 2008 to 31 December 2010. The total consideration for the year ended 31 December 2007 paid by the Hon Hai Group was US$220.673 million.

2. This refers to the properties leased from the Hon Hai Group to the Group pursuant to the framework lease agreement dated 18 January 2005 (as amended by the supplemental agreements dated 12 January 2006, 20 September 2006 and 24 October 2007 respectively) for an extended term commencing from 1 January 2008 to 31 December 2010. The total consideration for the year ended 31 December 2007 paid to the Hon Hai Group was US$7.201 million.

3. This refers to the general administrative, support, utility and other services provided by the Hon Hai Group to the Group pursuant to the general services agreement dated 18 January 2005 (as amended by the supplemental agreements dated 12 January 2006 and 24 October 2007 respectively) for an extended term commencing from 1 January 2008 to 31 December 2010. The total consideration for the year ended 31 December 2007 paid to the Hon Hai Group was US$64.309 million.

REPORT OF THE DIRECTORS

4. This refers to the research and development services provided by the Hon Hai Group to the Group pursuant to the research and development services agreement dated 19 January 2005 (as amended by the supplemental agreement dated 12 January 2006) which expired on 31 December 2007 and pursuant to the framework consolidated services and sub-contracting agreement dated 24 October 2007 for a term commencing from 1 January 2008 to 31 December 2010. There is no transaction for the year ended 31 December 2007.

5. This refers to the sub-contracting services provided by the Hon Hai Group to the Group pursuant to the framework sub-contracting (expense) agreement dated 18 January 2005 (as amended by the supplemental agreement dated 12 January 2006) which expired on 31 December 2007 and pursuant to the framework consolidated services and sub-contracting agreement dated 24 October 2007 for a term commencing from 1 January 2008 to 31 December 2010. The total consideration for the year ended 31 December 2007 paid to the Hon Hai Group was US$33.317 million.

6. This refers to the sub-contracting services provided to the Hon Hai Group by the Group pursuant to the framework sub-contracting (income) agreement dated 18 January 2005 (as amended by the supplemental agreements dated 12 January 2006 and 24 October 2007 respectively) for an extended term commencing from 1 January 2008 to 31 December 2010. The total consideration for the year ended 31 December 2007 paid by the Hon Hai Group was US$14.341 million.

7. This refers to equipment purchased by the Group from and sold by the Group to the Hon Hai Group pursuant to the framework equipment purchase agreement dated 18 January 2005 (as amended by the supplemental agreements dated 12 January 2006 and 24 October 2007 respectively) for an extended term commencing from 1 January 2008 to 31 December 2010 and the framework equipment sale agreement dated 18 January 2005 (as amended by the supplemental agreements dated 12 January 2006 and 24 October 2007 respectively) for an extended term commencing from 1 January 2008 to 31 December 2010, respectively. The total considerations for the year ended 31 December 2007 for equipment purchase paid to the Hon Hai Group and equipment sale paid by the Hon Hai Group were US$8.862 million and US$9.321 million respectively.

8. This refers to the supply of materials and components by the Hon Hai Group to the Group pursuant to the framework materials and components supply agreement dated 19 January 2005 (as amended by the supplemental agreements dated 28 February 2006 and 24 October 2007 respectively) for an extended term commencing from 1 January 2008 to 31 December 2010. The total consideration for the year ended 31 December 2007 paid to the Hon Hai Group was US$887.817 million.

9. This refers to the design services provided by the Hon Hai Group to the Group pursuant to the framework design sub-contracting service agreement dated 20 September 2006 which expired on 31 December 2007 and pursuant to the framework consolidated services and sub-contracting agreement dated 24 October 2007 for a term commencing from 1 January 2008 to 31 December 2010. There is no transaction for the year ended 31 December 2007.

10. This refers to the properties leased from the Group to the Hon Hai Group pursuant to the framework lease agreement dated 24 October 2007 for a term commencing from 1 January 2008 to 31 December 2010.

11. This refers to the general administrative, support, utility and other services provided by the Group to the Hon Hai Group pursuant to the framework general services agreement dated 24 October 2007 for a term commencing from 1 January 2008 to 31 December 2010.

REPORT OF THE DIRECTORS

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

1. have received the approval from the Board;

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

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

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

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

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

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

2. on normal commercial terms; and

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

SHARE OPTION SCHEME AND SHARE SCHEME

A share option scheme ("Option Scheme") and a share scheme ("Share Scheme") were adopted by the Company on 12 January 2005. The Share Scheme was amended by the shareholders at the extraordinary general meeting of the Company held on 4 August 2006.

REPORT OF THE DIRECTORS

Option Scheme

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

Outstanding at beginning of year	Date of grant during year	Granted during year	Vesting period	Exercise price	Exercised during year	Lapsed during year	Cancelled during year	Expired during year	Outstanding at end of year
402,914,280	–	–	each year on 25 July from 2006 to 2011	HK$6.06	56,253,470	14,183,560	101,483	–	332,375,767
	12 September 2007	2,400,000	each year on 16 July from 2008 to 2013	HK$20.63	–	–	–	–	2,400,000
	12 September 2007	300,000	each year on 7 September from 2008 to 2010	HK$20.63	–	–	–	–	300,000
402,914,280		2,700,000			56,253,470	14,183,560	101,483	–	335,075,767

Summary of Principal Terms of the Option Scheme

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

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

The total number of shares in respect of which options may be granted under the Option Scheme shall be 693,105,602 shares, representing approximately 9.82% of the issued share capital of the Company as at the date of this annual report.

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

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

REPORT OF THE DIRECTORS

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

Information on the Share Scheme

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

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

As at 22 April 2008, the issued share capital of the Company comprised 7,057,104,095 shares of US$0.04 each. Subject to the passing of an ordinary resolution approving the Scheme Mandate and on the basis that no further shares will be issued, purchased or repurchased prior to the forthcoming annual general meeting, exercise in full of the Scheme Mandate will result in 141,142,081 shares being allotted and issued under the Scheme Mandate. On the basis of the closing price of HK$11.14 per share as at 22 April 2008 and the Scheme Mandate being exercised in full, the aggregate market value of the 141,142,081 shares to be allotted and issued pursuant thereto would be approximately HK$1,572,322,782. 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.

Pursuant to the approval of the Board on 24 July 2007, the Company awarded 502,090 ordinary shares to 16 employees under the Share Scheme subject to lock-up periods of up to two years commencing from the date of grant, which lock-up periods vary from beneficiary to beneficiary.

Pursuant to the approval of the Board on 28 December 2007, the Company further awarded 20,393,720 ordinary shares to 3,041 employees under the Share Scheme subject to lock-up periods of up to three years commencing from the date of grant, which lock-up periods vary from beneficiary to beneficiary.

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

REPORT OF THE DIRECTORS

MAJOR CUSTOMERS AND SUPPLIERS

During the year, sales to the Group's five largest customers accounted for approximately 94% of the Group's total sales for the year and sales to the Group's largest customer amounted to approximately 39%. Purchases from the Group's five largest suppliers accounted for approximately 50% of the Group's total purchases for the year and purchases from the Group's largest supplier amounted to approximately 31%.

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 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 is 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 2007.

PRE-EMPTIVE RIGHTS

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

PENSION SCHEMES

Details of the Group's pension scheme and the basis of calculation are set out in note 34 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 ("CCGP"). Its primary duties are to review and supervise the group's financial reporting process and internal controls system, nominate and monitor external auditors and provide advice and comments to the Board. The audit committee is comprised of three non–executive directors, two of whom are independent non–executive directors.

REPORT OF THE DIRECTORS

The audit committee has reviewed the audited financial statements of the Group for the year ended 31 December 2007.

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, 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, 22 April 2008

INDEPENDENT AUDITOR'S REPORT

Deloitte.
德勤

TO THE SHAREHOLDERS OF FOXCONN INTERNATIONAL HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Foxconn International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 27 to 88, which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the

INDEPENDENT AUDITOR'S REPORT

entity's preparation and the true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, 22 April 2008

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2007

	NOTES	2007 US$'000	2006 US$'000
Turnover	6	**10,732,320**	10,381,236
Cost of sales		**(9,748,236)**	(9,408,852)
Gross profit		**984,084**	972,384
Other income	7	**152,125**	63,985
Selling expenses		**(20,560)**	(15,197)
General and administrative expenses		**(228,036)**	(150,700)
Research and development expenses		**(100,878)**	(62,063)
Interest expense on bank borrowings		**(31,193)**	(13,294)
Restructuring costs	8	**–**	(9,659)
Profit before tax	9	**755,542**	785,456
Income tax expense	12	**(30,063)**	(67,610)
Profit for the year		**725,479**	717,846
Attributable to:			
Equity holders of the parent		**721,424**	718,038
Minority interests		**4,055**	(192)
		725,479	717,846
Earnings per share	14		
Basic		**US10.27 cents**	US10.31 cents
Diluted		**US9.91 cents**	US9.93 cents

CONSOLIDATED BALANCE SHEET

At 31 December 2007

	NOTES	2007 US$'000	2006 US$'000
Non-current assets			
Property, plant and equipment	15	1,712,759	1,003,904
Prepaid lease payments	16	121,873	102,817
Available-for-sale investments	17	28,027	1,010
Goodwill	18	63,075	63,075
Deferred tax assets	19	22,095	15,806
Deposits for acquisition of property, plant and equipment		19,107	28,716
Deposits for prepaid lease payments		27,552	–
		1,994,488	1,215,328
Current assets			
Inventories	20	856,388	744,198
Investments held for trading	21	2,229	565
Trade and other receivables	22	2,311,446	1,877,660
Bank deposits	29	286,548	31,567
Bank balances and cash	29	1,255,117	633,090
		4,711,728	3,287,080
Current liabilities			
Trade and other payables	23	2,215,755	1,862,729
Bank loans	24	978,027	139,563
Provision	30	77,961	58,212
Tax payable		66,555	54,952
		3,338,298	2,115,456
Net current assets		1,373,430	1,171,624
Total assets less current liabilities		3,367,918	2,386,952
Capital and reserves			
Share capital	25	282,098	279,598
Reserves	26	3,026,894	2,089,384
Equity attributable to equity holders of the parent		3,308,992	2,368,982
Minority interests		16,177	12,020
Total equity		3,325,169	2,381,002
Non–current liabilities			
Deferred tax liabilities	19	208	1,909
Deferred income	37	42,541	4,041
		42,749	5,950
		3,367,918	2,386,952

The consolidated financial statements on pages 27 to 88 were approved and authorised for issue by the board of directors on 22 April 2008 and are signed on its behalf by:

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2007

	Attributable to equity holders of the parent											
	Share capital US$'000	Share premium US$'000	Subscription monies US$'000 *(Note 25)*	Special reserve US$'000 *(Note 26)*	Legal reserve US$'000 *(Note 26)*	Revaluation reserve US$'000	Translation reserve US$'000	Share compensation reserve US$'000	Retained profits US$'000	Total US$'000	Minority interests US$'000	Total US$'000
Balance at 1 January 2006	278,137	568,173	7,480	15,514	73,156	–	15,845	20,076	536,589	1,514,970	12,047	1,527,017
Profit for the year	–	–	–	–	–	–	–	–	718,038	718,038	(192)	717,846
Exchange differences arising on translation of foreign operations recognised directly in equity	–	–	–	–	–	–	59,703	–	–	59,703	165	59,868
Total recognised income for the year	–	–	–	–	–	–	59,703	–	718,038	777,741	(27)	777,714
Shares issued at premium *(Note 25)*	185	7,295	(7,480)	–	–	–	–	–	–	–	–	–
Issue of ordinary shares under Option Scheme and Share Scheme	1,276	31,041	–	–	–	–	–	(9,929)	–	22,388	–	22,388
Profit appropriations	–	–	–	–	31,566	–	–	–	(31,566)	–	–	–
Recognition of equity-settled share based payment *(Note 35)*	–	–	–	–	–	–	–	53,883	–	53,883	–	53,883
Balance at 31 December 2006	279,598	606,509	–	15,514	104,722	–	75,548	64,030	1,223,061	2,368,982	12,020	2,381,002
Profit for the year	–	–	–	–	–	–	–	–	721,424	721,424	4,055	725,479
Exchange differences arising on translation of foreign operations recognised directly in equity	–	–	–	–	–	–	130,292	–	–	130,292	102	130,394
Gain on fair value changes of available-for-sale investments	–	–	–	–	–	22,632	–	–	–	22,632	–	22,632
Total recognised income for the year	–	–	–	–	–	22,632	130,292	–	721,424	874,348	4,157	878,505
Issue of ordinary shares under Option Scheme and Share Scheme	2,500	71,973	–	–	–	–	–	(30,743)	–	43,730	–	43,730
Profit appropriations	–	–	–	–	40,812	–	–	–	(40,812)	–	–	–
Recognition of equity-settled share based payment *(Note 35)*	–	–	–	–	–	–	–	21,932	–	21,932	–	21,932
Balance at 31 December 2007	282,098	678,482	–	15,514	145,534	22,632	205,840	55,219	1,903,673	3,308,992	16,177	3,325,169

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2007

	NOTE	2007 US$'000	2006 US$'000
OPERATING ACTIVITIES			
Profit before tax		755,542	785,456
Adjustments for:			
Depreciation and amortisation		178,009	134,967
Interest expense		31,193	13,294
Share-based payment expense		21,932	57,312
Write down of inventories		6,431	28,107
Decrease (increase) in fair value of investments held for trading		487	(310)
Interest income		(23,672)	(10,585)
Deferred income recognised to income		(4,463)	–
(Gain) loss on disposal of property, plant and equipment		(1,945)	737
Gain on disposal of a subsidiary		(1,220)	–
Write back for doubtful debts		(27)	(658)
Impairment loss for property, plant and equipment		–	3,892
Gain on disposal of certain assets and liabilities of a subsidiary		–	(1,209)
Operating cash flows before movements in working capital		962,267	1,011,003
Increase in trade and other receivables		(279,629)	(295,897)
Increase in inventories		(118,624)	(242,860)
(Increase) decrease in investments held for trading		(2,130)	6,938
Increase in trade and other payables		210,974	392,288
Increase in provision		15,700	33,211
Increase in deferred income		9,801	–
Cash generated from operations		798,359	904,683
Interest paid		(31,193)	(13,294)
Income taxes paid		(27,772)	(42,956)
Interest received		23,672	10,585
NET CASH FROM OPERATING ACTIVITIES		763,066	859,018

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2007

	NOTE	2007 US$'000	2006 US$'000
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(853,173)**	(494,418)
(Increase) decrease in bank deposits for investing purpose		**(243,359)**	17,358
Increase in deposits for prepaid lease prepayments		**(27,552)**	–
Prepaid lease payments made		**(12,930)**	(95,132)
Purchase of available-for-sale investment		**(4,875)**	–
Proceeds on disposal of property, plant and equipment		**34,113**	32,279
Proceeds from government subsidies		**31,940**	–
Decrease (increase) in deposits for acquisition of property, plant and equipment		**11,081**	(6,453)
Proceeds on disposal of a subsidiary	28	**476**	–
Proceeds on disposal of certain assets and liabilities of a subsidiary		**–**	8,580
NET CASH USED IN INVESTING ACTIVITIES		**(1,064,279)**	(537,786)
FINANCING ACTIVITIES			
Bank loans repaid		**(1,690,659)**	(2,526,229)
Bank loans raised		**2,521,724**	2,490,244
Proceeds from issue of shares		**43,730**	22,388
NET CASH FROM (USED IN) FINANCING ACTIVITIES		**874,795**	(13,597)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**573,582**	307,635
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**633,090**	311,023
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**48,445**	14,432
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**1,255,117**	633,090
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances and cash		**1,255,117**	633,090

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

1. GENERAL

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

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

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

2. APPLICATION OF NEW AND REVISED ACCOUNTING STANDARDS

In preparing the financial statements, the Group has applied the following new and revised standards, amendments and interpretations (hereinafter collectively referred to as "new IFRSs") issued by the International Accounting Standards Board ("IASB"), which are effective for the Group's financial year beginning on 1 January 2007.

IAS 1 (Amendment)	Capital Disclosures
IFRS 7	Financial Instruments: Disclosures
IFRIC - Int 7	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies
IFRIC - Int 8	Scope of IFRS 2
IFRIC - Int 9	Reassessment of Embedded Derivatives
IFRIC - Int 10	Interim Financial Reporting and Impairment

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

2. APPLICATION OF NEW AND REVISED ACCOUNTING STANDARDS *(Continued)*

The Group has applied the disclosure requirements under IAS 1 (Amendment) and IFRS 7 retrospectively. Certain information presented in prior year under the requirements of IAS 32 has been removed and the relevant comparative information based on the requirements of IAS 1 (Amendment) and IFRS 7 has been presented for the first time in the current year.

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

IAS 1 (Revised)	Presentation of Financial Statements[1]
IAS 23 (Revised)	Borrowing Costs[1]
IAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
IAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[1]
IFRS 2 (Amendment)	Vesting Conditions and Cancellations[1]
IFRS 3 (Revised)	Business Combinations[2]
IFRS 8	Operating Segments[1]
IFRIC 11	IFRS 2: Group and Treasury Share Transactions[3]
IFRIC 12	Service Concession Arrangements[4]
IFRIC 13	Customer Loyalty Programmes[5]
IFRIC 14	IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[4]

[1] Effective for annual periods beginning on or after 1 January 2009
[2] Effective for annual periods beginning on or after 1 July 2009
[3] Effective for annual periods beginning on or after 1 March 2007
[4] Effective for annual periods beginning on or after 1 January 2008
[5] Effective for annual periods beginning on or after 1 July 2008

The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the results and the financial position of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of consolidation

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

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

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

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

Minority interests in the net assets (excluding goodwill) of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations

The acquisition of businesses is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 "Business Combinations" are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Goodwill

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

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

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill *(Continued)*

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

Revenue recognition

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

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

Service income is recognised when services are provided.

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

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 accumulated depreciation and any identified impairment loss at the balance sheet date.

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

Construction in progress represents property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing

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

The Group as lessee

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

Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financial statements.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. US$) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Borrowing costs

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

Government grants

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

Retirement benefit costs

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation

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

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

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

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substansively enacted by the balance sheet date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Research and development expenditure

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

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

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

Subsequent to initial recognition, internally-generated intangible asset is reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

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

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments

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

Financial assets

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

Financial assets at fair value through profit or loss

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

A financial asset is classified as held for trading if:

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

At each balance sheet date subsequent to initial recognition, financial assets at FVTPL are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Loans and receivables

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

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

Available-for-sale financial assets

The Group's available-for-sale financial assets are non-derivatives that are not classified as financial assets at fair value through profit or loss or loans and receivable.

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

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably determined are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the financial assets might be impaired.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

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 includes:

- significant financial difficulty of counterparty; or
- default or delinquency in settlement of receivables; or
- it becoming probable that the debtors will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade receivable, each significant asset is assessed for impairment individually. Assets that are assessed not to be impaired individually, together with financial assets with similar credit risk characteristics, are assessed for impairment on a collective basis. In determining whether there is any objective evidence of impairment or a portfolio of receivables, the Group considers its past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as other observable changes in national or local economic conditions that correlate with default on receivables.

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 estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the loans and receivables is reduced by the impairment loss directly for all loans and receivables with the exception of debtors, 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 debtor is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of a group entity after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities

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

Equity instruments

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

Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately. Derivative financial instruments that are not designated as effective hedging instruments are classified as held for trading.

Derecognition

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect of the time value of money is material.

Share-based payment transactions

Equity-settled share-based payment transactions

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

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

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

Cash-settled share-based payment transactions

For cash-settled share-based payments, the Group measures the goods or services acquired and the liability incurred at the fair value of the liability. At each balance sheet date, the liability is remeasured at its fair value until the liability is settled, with any changes in fair value recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the value in use. Where the actual future cash flows are less than expected, an impairment loss may arise. In May 2005, the Company acquired Chi Mei Communications Systems, Inc. ("CMCS"), a company which specialises in ODM business, and the carrying amount of goodwill at the balance sheet date was US$63,075,000. Details of the impairment testing are provided in note 18.

Provision

Provision has been made for value-added costs to repair or replace defective goods, such as labour (whether incurred internal or external) and material costs, and costs that may not be recoverable from suppliers for the rework, either in accordance with contractual terms or the Group's policy. In determining the amount of provisions, the management estimates the extent of repairs and replacements with reference to its past experience, technology needs and industry averages for defective products. The estimation may be adversely affected by many factors, including additional variations to the plans requested by the customers or because of technical needs, and unforeseen problems and circumstances. Any of these factors may affect the extent of repair or replacement required and therefore ultimate repair and replacement costs to be incurred in the future period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

5. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2007 US$'000	2006 US$'000
Financial assets		
Bank deposits with original maturity over three months and bank balances	1,541,665	664,657
Fair value through profit or loss	2,229	565
Loans and receivables	2,096,795	1,830,131
Available-for-sale financial assets	28,027	1,010
Financial liabilities		
Carrying amounts measured at amortised cost	2,905,045	1,739,188

Financial risk management objectives and policies

The Group's major financial instruments are set out above. 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.

(a) Interest rate risk

The Group is exposed interest rate risk through the impact of rate changes on interest bearing financial assets, mainly the interest bearing bank balance and bank deposits, and on variable-rate bank borrowings. Currently a majority of the Group's borrowings are raised on short-term basis and therefore the related interest rate risk is considered insignificant. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of LIBOR rate.

Interest rate sensitivity

At the respective balance sheet dates, if interest rates had been increased/decreased by 10 basis points and all other variables were held constant, the Group's profit would decrease/increase by approximately US$604,000 and US$294,000 for the year end of 31 December 2007 and 2006 respectively. This is mainly attributable to the Group's exposure to interest rate on its variable rate borrowings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

5. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

(b) Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31 December 2007 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. A major portion of the Group's trade debts are receivables from industry leaders or multinational customers with good financial background. Meanwhile, in order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Credit risk in 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. In determining whether there is objective evidence of impairment loss, the Group takes into consideration of the future cash flows of the assets.

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

(c) Currency risk

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

In order to mitigate the foreign currency risk, the Group manages its foreign currency exposures by non-financial techniques such as managing the transaction currency, leading and lagging payments, receivable management etc. In addition, the Group sometimes obtains bank loans in various foreign currencies and enters into short-term forward foreign currency 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

5. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

(c) Currency risk (Continued)

As at 31 December 2007, total notional amount of outstanding forward foreign exchange contracts that the Group has committed are approximately US$16,460,000 (2006: US$29,069,000), and their fair value is estimated to be approximately US$6,000 assets (2006: US$384,000 liabilities), based on market values provided by the banks of equivalent instruments, and is included as other receivables (2006: other payables) at the balance sheet date. The contract mainly related to buying of Japanese Yen and Euro with maturities in January 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 denominated in US$, and are summarised as follows:

	2007 **US$'000**	2006 US$'000
Assets		
US$	**621,484**	234,649
Liabilities		
US$	**(1,405,948)**	(890,481)

The Group's bank borrowings of approximately US$801,305,000 (2006: US$139,563,000) are denominated in US$ as at the balance sheet date are included in the monetary liabilities disclosed above.

Exchange rate sensitivity

At the respective balance sheet dates, if exchange rates of the functional currency of relevant group entities against US$ had been appreciated/depreciated by 1% and all other variables were held constant, the Group's profit would increase/decrease by approximately US$6,922,000 (2006: US$7,192,000) for the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

5. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

(d) Liquidity risk

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

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

As at 31 December 2007, the Group has available unutilised banking facilities of approximately US$1,971,512,000 (2006: US$1,771,770,000).

(e) Fair value

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

6. BUSINESS AND GEOGRAPHICAL SEGMENTS

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

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

INCOME STATEMENT

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

	Year ended 31 December 2006			
	Asia US$'000	Europe US$'000	America US$'000	Consolidated US$'000
TURNOVER				
External sales	6,435,691	1,464,947	2,480,598	10,381,236
RESULTS	614,980	114,193	239,502	968,675
Unallocated income				42,838
Unallocated expenses				(212,763)
Unallocated interest expense on bank borrowings				(13,294)
Profit before tax				785,456
Income tax expense				(67,610)
Profit for the year				717,846

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

6. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

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

BALANCE SHEET

	As at 31 December 2007			
	Asia	**Europe**	**America**	**Consolidated**
	US$'000	US$'000	US$'000	US$'000
ASSETS				
Segment assets	**896,182**	**584,804**	**915,136**	**2,396,122**
Unallocated assets				**4,310,094**
Consolidated total assets				**6,706,216**
LIABILITIES				
Segment liabilities	**–**	**76,896**	**291,581**	**368,477**
Unallocated liabilities				**3,012,570**
Consolidated total liabilities				**3,381,047**

	As at 31 December 2006			
	Asia	Europe	America	Consolidated
	US$'000	US$'000	US$'000	US$'000
ASSETS				
Segment assets	1,014,917	366,396	669,250	2,050,563
Unallocated assets				2,451,845
Consolidated total assets				4,502,408
LIABILITIES				
Segment liabilities	–	68,545	181,400	249,945
Unallocated liabilities				1,871,461
Consolidated total liabilities				2,121,406

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

6. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

OTHER INFORMATION

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

	Year ended 31 December 2006				
	Asia US$'000	Europe US$'000	America US$'000	Unallocated US$'000	Consolidated US$'000
Capital additions	–	22,589	27,315	444,514	494,418
Depreciation and amortisation	–	11,114	20,696	103,157	134,967
Impairment losses on property, plant and equipment	–	3,892	–	–	3,892
(Gain) loss on disposal of property, plant and equipment	–	(612)	880	469	737
(Write back) allowances for doubtful debts	(1,103)	(484)	929	–	(658)
Write-down of inventories	–	1,887	10,020	16,200	28,107
Provision for warranty	39,983	4,976	16,364	–	61,323

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

6. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

OTHER INFORMATION *(Continued)*

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

	Carrying amount of segment assets as at 31 December		Additions to property, plant and equipment for the year ended 31 December	
	2007	2006	**2007**	2006
	US$'000	US$'000	**US$'000**	US$'000
Asia	**4,925,323**	3,142,498	**770,544**	444,514
Europe	**351,667**	384,937	**9,317**	22,589
America	**1,407,131**	959,167	**73,312**	27,315
	6,684,121	4,486,602	**853,173**	494,418

7. OTHER INCOME

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

	2007	2006
	US$'000	US$'000
Interest income from bank	**23,672**	10,585
Service and sub-contracting income	**13,804**	21,147
Sales of materials, scraps and moldings	**34,845**	14,906
Net foreign exchange gain	**66,063**	8,975
Gain on disposal of certain assets and liabilities of a subsidiary	**–**	1,209
Gain on disposal of property, plant and equipment	**1,945**	–
Gain on disposal of a subsidiary	**1,220**	–
Government subsidies	**4,219**	134
Others	**6,357**	7,029
	152,125	63,985

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

8. RESTRUCTURING COSTS

	2007 US$'000	2006 US$'000
Impairment losses on property, plant and equipment	–	3,892
Redundancy costs	–	5,767
	–	9,659

The amount represented those costs incurred and provision made in connection with the Group's restructuring and relocating its European operations in 2006.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

9. PROFIT BEFORE TAX

	2007 US$'000	2006 US$'000
Profit before tax has been arrived at after charging (crediting):		
Write back for doubtful debts	(27)	(658)
Write down of inventories	6,431	28,107
Amortisation of prepaid lease payments (included in general and administrative expenses)	1,816	337
Auditor's remuneration	1,012	830
Cost of inventories recognised as expense	9,665,892	9,319,422
Provision for warranty	82,344	61,323
Depreciation of property, plant and equipment	176,193	134,630
Impairment losses on property, plant and equipment	–	3,892
Net foreign exchange gain	(66,063)	(8,975)
Decrease (increase) in fair value of investments held for trading	487	(310)
Gain on a disposal of a subsidiary	(1,220)	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

9. PROFIT BEFORE TAX *(Continued)*

	2007 US$'000	2006 US$'000
Staff costs		
Directors' remuneration	1,457	1,457
Retirement benefit scheme contributions (excluding directors)	24,749	18,258
Equity-settled share-based payments	21,932	53,883
Cash-settled share-based payments	1,408	3,429
Other staff costs	414,970	300,016
	464,516	377,043
(Gain) loss on disposal of property, plant and equipment	(1,945)	737
Gain on disposal of certain assets and liabilities of a subsidiary	–	(1,209)

10. DIRECTORS' REMUNERATION

The emoluments paid or payable to each of the ten (2006: nine) directors were as follows:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

10. DIRECTORS' REMUNERATION *(Continued)*

		Other emoluments			
	Fees US$'000	Basic salaries and allowances US$'000	Performance related incentive payments US$'000	Retirement benefit scheme contributions US$'000	Total 2006 US$'000
Chin Wai Leung, Samuel	–	1,200	–	–	1,200
Dai Feng Shuh	–	180	–	–	180
Chang Ban Ja, Jimmy	–	–	–	–	–
Gou Hsiao Ling	–	–	–	–	–
Lee Jin Ming	–	–	–	–	–
Lu Fang Ming	–	–	–	–	–
Lau Siu Ki	23	8	–	–	31
Edward Fredrick Pensel	23	–	–	–	23
Mao Yu Lang	23	–	–	–	23
	69	1,388	–	–	1,457

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

11. EMPLOYEES' EMOLUMENTS

The aggregate emoluments of the five highest paid individuals included one (2006: one) executive director of the Company, whose emoluments are included in note 10 above. The emoluments of the remaining four (2006: four) individuals were as follows:

	2007 US$'000	2006 US$'000
Salaries and other benefits	**477**	352
Retirement benefits scheme contributions	**–**	–
Performance-related incentive payments	**2,566**	4,561
	3,043	4,913

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

11. EMPLOYEES' EMOLUMENTS *(Continued)*

Their emoluments were within the following bands:

	Number of employees	
	2007	2006
HK$5,000,001 to HK$5,500,000	**1**	–
HK$5,500,001 to HK$6,000,000	**2**	–
HK$6,500,001 to HK$7,000,000	**1**	–
HK$8,000,001 to HK$8,500,000	**–**	1
HK$9,000,001 to HK$9,500,000	**–**	2
HK$11,500,001 to HK$12,000,000	**–**	1
	4	4

12. INCOME TAX EXPENSE

	2007	2006
	US$'000	US$'000
Current tax	**35,178**	75,522
Under (over) provision in prior years	**2,066**	(1,298)
	37,244	74,224
Deferred tax (note 19)		
Current year	**(3,899)**	(6,614)
Attributable to a change in tax rate	**(3,282)**	–
	(7,181)	(6,614)
	30,063	67,610

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

12. INCOME TAX EXPENSE *(Continued)*

Tax charge mainly consists of income tax in the PRC attributable to the assessable profits of the Company's subsidiaries established in the PRC. The tax charge is calculated at the applicable rates prevailing in the PRC's Economic and Technological Development Zones ranging from 15% to 16.5%. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

For both years, the Company's subsidiaries operating in the PRC are eligible for certain tax holiday and concession. The tax holiday and concession normally are in the form of two years tax exemption from the first profitable year, followed by a 50% reduction of the applicable tax rate in the following three years.

On 16 March 2007, the National People's Congress promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the People's Republic of China. The New Law will impose a single income tax rate of 25% for both domestic and foreign invested enterprises from 1 January 2008. On 28 December 2007, the State Council issued the circular on the Implementation of Transitional Preferential Policies for Enterprise Income Tax by Guo Fa [2007] No.39 which will be effective from 1 January 2008. According to the circular, from 1 January 2008, the enterprises that originally enjoy the preferential treatment of regular tax reduction and exemption such as "exemption from income tax in the first two profit-making years and a fifty percent reduction in the ensuing three years" may, after the enforcement of the New Law, enjoy the original preferential treatment in accordance with the preferential measures and term stipulated by the original tax law, administrative regulations and relevant documents until after the expiration of the entitlement period. The Company's subsidiaries in PRC applied tax rate under the existing tax laws to provide for current tax. The deferred tax balance as at 31 December 2007 has been adjusted to reflect the tax rates that are expected to apply to the respective periods when the asset is realised or the liability is settled.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

12. INCOME TAX EXPENSE *(Continued)*

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

	2007 US$'000	2006 US$'000
Profit before tax	755,542	785,456
Tax at the PRC income tax rate of 15% for the year	113,331	117,818
Effect of different tax rates of subsidiaries	1,348	(338)
Effect of income taxed at concessionary rate	(72,075)	(49,768)
Tax effect of expenses not deductible for tax purpose	14,117	14,991
Tax effect of income not taxable for tax purpose	(5,569)	(5,098)
Tax effect of tax losses not recognised	2,173	244
Tax effect of income tax credits granted to PRC subsidiaries on acquisition of certain qualified equipment *(note)*	(11,712)	(6,261)
Tax refund for reinvestment in PRC subsidiaries	(10,334)	(2,680)
Tax effect of a change in tax rate	(3,282)	–
Under (over) provision in prior years	2,066	(1,298)
Tax expense for the year	30,063	67,610

Note: Pursuant to the relevant tax rules and regulations, PRC subsidiaries of the Company can claim PRC income tax credits on 40% of the acquisition cost of certain qualified equipment manufactured in the PRC. Such PRC income tax credits are allowed, and are accounted for, as deduction from current income tax expenses when relevant conditions are fulfilled and tax approval is obtained from the tax bureau.

13. DIVIDEND

No dividend was paid or proposed during 2007 (2006: Nil), nor has any dividend been proposed since the balance sheet date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

14. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit for the year attributable to equity holders of parent of US$721,424,000 (2006: US$718,038,000) and the weighted average number of 7,021,486,715 (2006: 6,966,517,747) shares in issue.

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

	2007	2006
	US$'000	US$'000
Earnings		
Earnings for the purposes of basic and diluted earnings per share (profit for the year attributable to equity holders of the parent)	**721,424**	718,038
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**7,021,486,715**	6,966,517,747
Effect of dilutive potential ordinary shares:		
Share options	**255,933,595**	266,877,813
Other share-based payment plan	**2,461**	–
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**7,277,422,771**	7,233,395,560

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

15. 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 2006	166,337	490,175	43,994	42,154	742,660
Exchange adjustments	8,626	20,642	1,693	3,880	34,841
Additions	21,019	348,162	58,360	66,877	494,418
Disposals	(10,479)	(86,855)	(2,652)	–	(99,986)
Transfers	18,245	15,193	48	(33,486)	–
At 31 December 2006	203,748	787,317	101,443	79,425	1,171,933
Exchange adjustments	17,362	58,705	4,061	3,700	83,828
Additions	104,552	374,973	29,633	344,015	853,173
Eliminated on disposal of a subsidiary	(4,154)	(1,853)	–	–	(6,007)
Other disposals	(27,028)	(51,150)	(2,954)	–	(81,132)
Transfers	111,897	63,176	–	(175,073)	–
At 31 December 2007	406,377	1,231,168	132,183	252,067	2,021,795
DEPRECIATION AND IMPAIRMENT					
At 1 January 2006	8,976	61,222	10,670	–	80,868
Exchange adjustments	1,235	8,344	653	–	10,232
Charge for the year	10,330	106,079	18,221	–	134,630
Impairment loss	–	3,892	–	–	3,892
Eliminated on disposals	(2,506)	(57,830)	(1,257)	–	(61,593)
At 31 December 2006	18,035	121,707	28,287	–	168,029
Exchange adjustments	2,067	11,747	1,552	–	15,366
Charge for the year	12,398	146,075	17,720	–	176,193
Eliminated on disposal of a subsidiary	(1,567)	(21)	–	–	(1,588)
Eliminated on other disposals	(10,286)	(36,990)	(1,688)	–	(48,964)
At 31 December 2007	20,647	242,518	45,871	–	309,036
CARRYING VALUES					
At 31 December 2007	385,730	988,650	86,312	252,067	1,712,759
At 31 December 2006	185,713	665,610	73,156	79,425	1,003,904

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

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

Included in the land and buildings are freehold land, located in Hungary, Finland, Brazil, the United States of America, Mexico, India and Taiwan, having an aggregate cost of approximately US$34,180,000 (2006: US$29,493,000).

Certain property, plant and equipment are pledged to secure banking facilities granted to the Group as at the balance sheet dates (see note 36).

The impairment loss on property, plant and equipment provided in 2006 mainly arose in connection with the Group's restructuring plan for its plant facilities in Europe. The recoverable amount was determined based on fair value less costs to sell. The fair values of these plant and machinery had been determined by the management by reference to recent market prices for similar plant and machinery.

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

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

16. PREPAID LEASE PAYMENTS

The amount represents land use rights in the PRC amortised over their relevant lease term ranging from 40 to 70 years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

17. AVAILABLE-FOR-SALE INVESTMENTS

	2007 US$'000	2006 US$'000
Overseas equity investment *(note a)*	27,507	–
Unlisted overseas equity investments *(note b)*	520	1,010
	28,027	1,010

Notes:

(a) As at 31 December 2007, the Group held 8.9% (2006: Nil) of the ordinary share capital of Advanced Optoelectronic Technology Inc., of which its shares are traded on Taiwan OTC Market. The investment is measured at the quoted price in the Taiwan OTC Market on 31 December 2007.

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

18. GOODWILL

	2007 US$'000	2006 US$'000
At 1 January and 31 December	63,075	63,075

The amount represents goodwill arising on the acquisition of 76.33% interest in CMCS in 2005. Goodwill has been allocated to one single cash generating unit, CMCS. At the end of 2007, the Group appointed a professional valuer to perform an appraisal of the value in use of CMCS. The recoverable amount has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and discount rate of 12.97%. Cash flows beyond the 5-year period has been extrapolated in perpetuity using a steady 2.0% growth rate. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Another key assumption for the value in use calculations is the budgeted gross margin, which is determined based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount to exceed the aggregate recoverable amount.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

19. DEFERRED TAXATION

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

	Allowances for inventories, trade and other receivables	Warranty provision	Accelerated tax depreciation	Tax losses	Deferred income	Others	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
At 1 January 2006	(279)	–	2,923	(8,996)	–	(991)	(7,343)
Charge (credit) to income for the year	(4,237)	(7,483)	(1,114)	6,501	(569)	288	(6,614)
Exchange differences	–	(29)	100	(34)	16	7	60
At 31 December 2006	(4,516)	(7,512)	1,909	(2,529)	(553)	(696)	(13,897)
Charge (credit) to income for the year	938	3,049	(1,840)	(14)	(4,688)	(1,344)	(3,899)
Effect of change in tax rate	(1,083)	(1,788)	–	–	–	(411)	(3,282)
Exchange differences	(195)	(269)	52	(13)	(276)	(108)	(809)
At 31 December 2007	(4,856)	(6,520)	121	(2,556)	(5,517)	(2,559)	(21,887)

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

	2007	2006
	US$'000	US$'000
Deferred tax assets	**(22,095)**	(15,806)
Deferred tax liabilities	**208**	1,909
	(21,887)	(13,897)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

19. DEFERRED TAXATION *(Continued)*

At the balance sheet date, the Group has unused tax losses of US$36,194,000 (2006: US$21,617,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately US$10,208,000 (2006: US$10,115,000) of such losses. No deferred tax asset has been recognised in respect of the remaining US$25,986,000 (2006: US$11,502,000) either due to the unpredictability of future profit streams or because it is not probable that the unused tax losses will be available for utilisation before their expiry. The unrecognised tax losses will expire before 2012.

By reference to financial budgets, management believes that there will be sufficient future 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.

No liability has been recognised in respect of temporary differences associated with undistributed earnings of subsidiaries as at the balance sheet date because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

20. INVENTORIES

	2007	2006
	US$'000	US$'000
Raw materials	**390,936**	346,264
Work-in-progress	**154,092**	126,561
Finished goods	**311,360**	271,373
	856,388	744,198

21. INVESTMENTS HELD FOR TRADING

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

22. TRADE AND OTHER RECEIVABLES

	2007 US$'000	2006 US$'000
Trade receivables	2,064,448	1,816,456
Less: allowance for doubtful debts	(1,643)	(1,643)
	2,062,805	1,814,813
Other taxes receivables	167,945	42,307
Other receivables	80,696	20,540
Total trade and other receivables	2,311,446	1,877,660

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

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

	2007 US$'000	2006 US$'000
0-90 days	2,038,851	1,806,005
91-180 days	21,066	8,352
181-360 days	2,138	385
Over 360 days	750	71
	2,062,805	1,814,813

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

22. TRADE AND OTHER RECEIVABLES *(Continued)*

As at 31 December 2007, trade receivables with a carrying amount of approximately US$23,954,000 (2006: US$8,808,000) 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:

	2007 US$'000	2006 US$'000
91-180 days	21,066	8,352
181-360 days	2,138	385
Over 360 days	750	71
	23,954	8,808

Movement in the allowance for doubtful debts

	2007 US$'000	2006 US$'000
Balance at beginning of the year	1,643	2,266
Impairment losses recognised on receivables	587	1,171
Amounts recovered during the year	(614)	(1,829)
Exchange adjustments	27	35
Balance at end of the year	1,643	1,643

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

23. TRADE AND OTHER PAYABLES

	2007 US$'000	2006 US$'000
Trade payables	**1,823,510**	1,540,285
Accruals and other payables	**392,245**	322,444
	2,215,755	1,862,729

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

	2007 US$'000	2006 US$'000
0-90 days	**1,796,333**	1,468,343
91-180 days	**19,244**	62,039
181-360 days	**3,542**	7,053
Over 360 days	**4,391**	2,850
	1,823,510	1,540,285

The fair value of the Group's trade and other payables at the balance sheet dates approximates to the corresponding carrying amount.

24. BANK LOANS

	2007 US$'000	2006 US$'000
Analysis of borrowings by currency		
US$	**801,305**	139,563
RMB	**176,722**	–
	978,027	139,563

The loans as at 31 December 2007 are unsecured, obtained with original maturity of three to six months and carry at interest rate ranging from 4.67% to 7.29% (2006: 5.66%) per annum. The weighted average effective interest rate on the bank loans is 5.65% per annum (2006: 5.66% per annum).

The fair value of the Group's bank borrowings at the balance sheet dates approximates to the corresponding carrying amount.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

25. SHARE CAPITAL

	Number of shares	Amount
		US$'000
Ordinary shares of US$0.04 each, authorised:		
Balance at 31 December 2006 and 31 December 2007	20,000,000,000	800,000
Ordinary shares of US$0.04 each, issued and fully paid:		
Balance at 1 January 2006	6,953,416,025	278,137
Issued on 4 January 2006	4,640,000	185
Exercise of share options	28,731,520	1,149
Issued pursuant to a share scheme	3,168,000	127
Balance at 31 December 2006	6,989,955,545	279,598
Exercise of share options *(note 35(a))*	56,253,470	2,250
Issued pursuant to a share scheme *(note 35(c))*	6,250,235	250
Balance at 31 December 2007	7,052,459,250	282,098

During the year, the Company issued 6,250,235 ordinary shares pursuant to a share scheme adopted on 12 January 2005. Details of the share scheme are disclosed in note 35 to the consolidated financial statements.

Pursuant to agreements with certain employees of CMCS, subscriptions for the Company's new ordinary shares of US$0.04 each by these employees had become unconditional as at 29 December 2005, and 4,640,000 new ordinary shares were subsequently issued on 4 January 2006.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

27. DERIVATIVES

Currency derivatives

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

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

	2007	2006
	US$'000	US$'000
Forward foreign exchange contracts	**16,460**	29,069

As at 31 December 2007, the fair value of the Group's currency derivatives is estimated to be approximately US$6,000 assets (2006: US$384,000 liabilities), based on market values provided by the banks of equivalent instruments, and is included as other receivables (2006: other payables) at the balance sheet date. The contracts mainly related to buying of Japanese Yen and Euro with maturities in January 2008.

Interest rate swaps

The Group uses interest rate swaps to manage its exposure to interest rate movements on certain of its bank borrowings.

As at 31 December 2006, contracts with nominal values of US$6,600,000 had fixed interest payments at an average rate of 4 per cent for periods until 2007 and had floating interest receipts based on The Bond Market Association Municipal Swap Index. The contracts were expired in September 2007.

The fair value of the swaps was estimated at approximately US$7,000 liabilities and was included as other payables at 31 December 2006. These amounts were based on market values provided by the bank of equivalent instruments at 31 December 2006.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

28. DISPOSAL OF A SUBSIDIARY

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

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

The deferred consideration will be settled in cash by instalments on or before 15 June 2008.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

29. BANK DEPOSITS AND BANK BALANCES AND CASH

Bank deposits carry at prevailing market interest rate of 3.46% (2006: 1.98%) per annum with original maturity of over three months.

Bank balances and cash comprise cash held by the Group and short term bank deposits with an original maturity of three months or less. The deposits carry at prevailing market interest rate of 1.95% (2006: 2.43%) per annum.

The fair value of bank deposits and bank balances at balance sheet dates approximates to the corresponding carrying amount.

30. PROVISION

	2007	2006
	US$'000	US$'000
At 1 January	**58,212**	23,635
Exchange adjustments	**4,049**	1,366
Provision for the year	**82,344**	61,323
Utilisation of provision	**(66,644)**	(28,112)
At 31 December	**77,961**	58,212

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. CAPITAL COMMITMENTS

	2007	2006
	US$'000	US$'000
Commitments for the acquisition of property, plant and equipment contracted but not provided for	**207,993**	57,389

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

32. OPERATING LEASE ARRANGEMENTS

The Group as lessee

	2007 US$'000	2006 US$'000
Minimum lease payments under operating leases in respect of premises recognised for the year	**10,165**	12,296

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

	2007 US$'000	2006 US$'000
Within one year	**10,489**	9,018
In the second to fifth years inclusive	**16,070**	4,394
Over five years	**6,663**	–
	33,222	13,412

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

33. 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:

	2007 US$'000	2006 US$'000
Hon Hai		
Sales of goods	**10,223**	6,006
Purchase of goods	**197,022**	51,466
Purchase of property, plant and equipment	**2,732**	10,592
Sales of property, plant and equipment	**234**	975
Sub-contracting income	**1,457**	10,614
Lease expense	**–**	8
Sub-contracting expense	**151**	525
General services expense	**272**	190
Design service	**–**	5,435
Subsidiaries and associates of Hon Hai		
Sales of goods	**210,450**	247,327
Purchase of goods	**690,795**	1,012,846
Purchase of property, plant and equipment	**6,130**	12,745
Sales of property, plant and equipment	**9,087**	34,590
Lease expense	**7,201**	4,451
Sub-contracting income	**12,884**	41,880
Sub-contracting expense	**33,166**	26,743
General services expense	**64,037**	32,535
Research and development expense	**–**	2,250

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

33. RELATED PARTY TRANSACTIONS *(Continued)*

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

	2007 US$'000	2006 US$'000
Trade receivables:		
Hon Hai	2,374	14,802
Subsidiaries and associates of Hon Hai	46,118	92,130
	48,492	106,932
Other receivables:		
Hon Hai	2,500	5
Subsidiaries and associates of Hon Hai	604	587
	3,104	592
	51,596	107,524
Trade payables:		
Hon Hai	24,093	46,328
Subsidiaries and associates of Hon Hai	289,613	255,473
	313,706	301,801
Other payables:		
Hon Hai	98	5,479
Subsidiaries and associates of Hon Hai	9,254	6,873
	9,352	12,352
	323,058	314,153

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

33. 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:

	2007 US$'000	2006 US$'000
Short-term benefits	2,129	2,173
Share-based payments	3,698	7,039
	5,827	9,212

34. 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 2007 by 徐茂欽精算師, 中華民國精算師協會 (Hsu Mao-Chin Actuary, The Actuarial Institute of the Republic of China) and Waston Wyatt Philippines Inc., 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:

	2007	2006
Discount rate	2.75%-5.75%	2.5% – 5.0%
Expected return on plan assets	2.50%-5.00%	2.5% – 5.0%
Expected rate of salary increases	2.00%-5.00%	2.0% – 5.0%
Future pension increases	–	–

The actuarial valuation showed that the market value of plan assets was US$3,053,000 (2006: US$1,954,000) and that the actuarial value of these assets represented 59% (2006: 39%) of the benefits that had accrued to members.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

34. RETIREMENT BENEFITS PLANS *(Continued)*

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

	2007	2006
	US$'000	US$'000
Current service cost	**376**	265
Interest cost	**128**	121
Expected return on plan assets	**(66)**	(41)
Net actuarial (gains)/losses	**–**	–
Past service cost	**(2)**	165
	436	510

Of the charge for the year, US$436,000 (2006: US$77,000) has been included in administrative expenses, and an amount of US$433,000 has been included in cost of sales for the year ended 31 December 2006.

The actual return on plan assets was US$48,000 (2006: US$14,000) as at 31 December 2007.

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

	2007	2006
	US$'000	US$'000
Present value of funded defined benefit obligations	**5,133**	4,989
Fair value of plan assets	**(3,053)**	(1,954)
Deficit	**2,080**	3,035
Net actuarial gains and losses not recognised	**384**	90
Past service cost not recognised	**–**	(3,373)
Net liability (asset) arising from defined benefit obligations (included in other payables/ other receivables)	**2,464**	(248)

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

35. SHARE-BASED PAYMENT TRANSACTIONS

(a) Equity-settled share option scheme

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

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

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

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

Details of specific categories of options are as follows:

Option type	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
2007B	12 September 2007	300,000	Ranging from one to three years up to September 2010	20.63	From vesting date to 31 December 2010	212,000	20.25

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

35. 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 2007:

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

The following table discloses movements of the Company's share options held by employees during the year ended 31 December 2006:

Option type	Outstanding at 1/1/2006	Granted during year	Exercised during year	Lapsed during year	Expired during year	Outstanding at 31/12/2006
2005	435,290,000	–	(28,731,520)	(3,644,200)	–	402,914,280

59,349,607 (2006: 44,795,010) share options are exercisable as at 31 December 2007.

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

The Group recognised total expense of US$19,992,000 (2006: US$32,448,000) for the year ended 31 December 2007 in relation to the share options granted by the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

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

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

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

	2005	2007A	2007B
Share price on date of grant	US$0.76 (equivalent to HK$5.95)	US$2.50 (equivalent to HK$19.46)	US$2.50 (equivalent to HK$19.46)
Exercise price	US$0.76 (equivalent to HK$6.06)	US$2.65 (equivalent to HK$20.63)	US$2.65 (equivalent to HK$20.63)
Expected volatility	30%	36%	36%
Expected life	Vesting period plus 1.5 years	Vesting period plus 1.5 years	Vesting period plus 1.5 years
Risk free rate	3.39%	3.92%	4.09%
Dividend yield	0%	0%	0%

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

35. 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$12.00 to HK$26.05 with vesting period ranging from one to three years from the grant date. The SARs require the Group to pay the intrinsic value of the SAR to the employee at the date of exercise. At 31 December 2007, the Group has recorded liabilities of US$2,641,000 (2006: US$3,429,000) and recorded total expenses of US$1,408,000 (2006: US$3,429,000) for the year then ended. The fair value of the SARs is determined using the Black-Scholes pricing model with expected volatility of 38.04%, risk free rate of 4.33% and dividend yield of 0%.

(c) Other share-based payment plan

Pursuant to a share scheme adopted by the Company on 12 January 2005 (the "Share Scheme"), the Company may grant free shares to the directors, employees of the Company or its subsidiaries or third party service providers including employees of Hon Hai and its other subsidiaries.

Pursuant to the approval of the board of directors of the Company on 29 December 2006, the Company offered 5,748,145 ordinary shares to certain employees pursuant to the Share Scheme, of which 3,010,427 ordinary shares were granted without lock-up periods, while the remaining shares were granted with lock-up periods ranging from one to three years from the grant date. No consideration is payable on the grant of the shares and the shares were subsequently issued on 2 February 2007.

Pursuant to the approval of the board of directors of the Company on 24 July 2007, the Company offered 502,090 ordinary shares to certain employees pursuant to the Share Scheme, of which 95,090 ordinary shares were granted without lock-up periods, 209,000 ordinary shares were granted with lock-up periods expired on 25 July 2007, while the remaining shares were granted with lock-up periods ranging from one to two years from the grant date. No consideration is payable on the grant of the shares and the shares were subsequent issued on 30 July 2007.

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

The Group recognised total expense of US$1,940,000 (2006: US$21,435,000) for the year ended 31 December 2007 in relation to the ordinary shares awarded by the Company under the Share Scheme.

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For the year ended 31 December 2007

36. PLEDGE OF ASSETS

As at the balance sheet date, a subsidiary of the Company has pledged property, plant and equipment having a carrying value of approximately US$5,851,000 (2006: US$4,603,000) to secure general banking facilities granted to the Group.

37. DEFERRED INCOME

	2007	2006
	US$'000	US$'000
Government subsidies	**32,985**	4,041
Sale and leaseback transaction	**9,556**	–
	42,541	4,041

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.

38. POST BALANCE SHEET EVENTS

The Company announced on 19 November 2007 that the Group has agreed to subscribe for 74,999 new ordinary shares in Diabell Co., Ltd. ("Diabell") at a cash consideration of approximately US$12,800,000. Diabell is a limited company established in the Republic of Korea. The subscription was completed on 27 February 2008.

On 5 March 2008, the Company also announced that the Group has agreed to subscribe for 14,893,000 new ordinary shares in Ways Technical Corp., Ltd., a limited company established in Taiwan and whose shares are traded on the Taiwan OTC Market, at a total consideration of approximately US$33,640,000. The subscription was completed on 25 March 2008.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

39. PRINCIPAL SUBSIDIARIES

The Company has the following principal subsidiaries as at 31 December 2007:

Name of subsidiary	Form of business structure	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company		Principal activities
				Directly	Indirectly	
CMCS	Limited company	Taiwan	NT$1,500,000,000	–	76.332%	Design and manufacture of handsets
FIH Co., Limited	Limited company	Taiwan	NT$1,000,000	100%	–	Provision of services to group companies
Foxconn Beijing Trading Co., Ltd.	Limited company	British Virgin Islands ("BVI")	US$1	100%	–	Trading of handsets
Foxconn DK ApS	Limited company	Denmark	DKK2,100,000	–	100%	Research development and project management
FIH Europe Limited Liability Company (formerly Foxconn Hungary Kft)	Limited company	Hungary	HUF10,039,000,000	–	100%	Manufacture of handsets
Foxconn Mexico Precision Industry, Co. SA de CV.	Limited company	Mexico	MXN3,007,283,685	–	100%	Manufacture of handsets
Foxconn Oy	Limited company	Finland	EUR1,558,800	–	100%	Manufacture of handsets
富士康精密組件(北京)有限公司 (Foxconn Precision Component (Beijing) Co., Ltd.)	Wholly foreign owned enterprise	PRC	US$68,800,000	–	100%	Manufacture of handsets
宏訊電子工業(杭州)有限公司 (Honxun Electrical Industry (Hangzhou) Co., Ltd.)	Wholly foreign owned enterprise	PRC	US$106,800,000	–	100%	Manufacture of handsets

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For the year ended 31 December 2007

39. PRINCIPAL SUBSIDIARIES *(Continued)*

Name of subsidiary	Form of business structure	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company		Principal activities
				Directly	Indirectly	
S&B Industry Technologies Limited Partnership	Limited company	USA	US$7,218,280	–	100%	Repair centre
深圳富泰宏精密工業有限公司 (Shenzhen Futaihong Precision Industrial Co., Ltd.)	Wholly foreign owned enterprise	PRC	US$178,520,000	–	100%	Manufacture of handsets
Success World Holdings Limited	Limited company	Hong Kong	HK$388,525,000	100%	–	Investment holding
Sutech Industry Inc.	Limited company	USA	US$10,000	–	100%	Provision of logistics services to group companies
Sutech Trading Limited	Limited company	BVI	US$1	–	100%	Trading of handsets
富士康(天津)精密工業有限公司 (Foxconn (Tianjin) Precision Industry Co., Ltd.)	Wholly foreign owned enterprise	PRC	US$52,800,000	–	100%	Manufacture of handsets
Foxconn do Brasil Indústria e Comércio de Eletrônicos Ltda. (formerly Triple S Cosmoplast da Amazonia, Ltda.)	Limited company	Brazil	BRL$23,828,402	–	100%	Manufacture of handsets
Foxconn India Private Limited	Limited company	India	INR1,782,274,200	–	100%	Manufacturing, import, export, distribution and assembly
富士康精密電子(煙台)有限公司 (Foxconn Precision Electronics (Yantai) Co., Ltd.)	Wholly foreign owned enterprise	PRC	US$8,000,000	–	100%	Manufacture of handsets

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

39. PRINCIPAL SUBSIDIARIES *(Continued)*

Name of subsidiary	Form of business structure	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company Directly	Attributable equity interest held by the Company Indirectly	Principal activities
富士康精密電子(太原)有限公司 (Foxconn Precision Electronics (Taiyuan) Co., Ltd.)	Wholly foreign owned enterprise	PRC	US$85,500,000	–	100%	Manufacture of handsets
富泰京精密電子(北京)有限公司 (Futaijing Precision Electronics (Beijing) Co., Ltd.)	Wholly foreign owned enterprise	PRC	US$45,000,000	–	100%	Manufacture of handsets
富士康精密電子(廊坊)有限公司 (Foxconn Precision Electronics (Langfang) Co., Ltd.)	Wholly foreign owned enterprise	PRC	US$99,000,000	–	100%	Manufacture of handsets
Foxconn Reynosa S.A. De C.V.	Limited company	Mexico	MXN50,000	–	100%	Manufacture of handsets
FIH Technology Korea Ltd.	Limited company	Korea	KRW51,700,000	–	100%	Research development and project management

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

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

FINANCIAL SUMMARY

	For the year ended 31 December				
	2003 (US$'million)	2004 (US$'million)	2005 (US$'million)	2006 (US$'million)	**2007 (US$'million)**
Results					
Turnover	1,090.62	3,308.27	6,364.50	10,381.24	**10,732.32**
Profit from operations	106.00	195.10	433.15	798.75	**786.73**
Interest expenses on bank borrowings	(1.17)	(7.37)	(13.90)	(13.29)	**(31.19)**
Loss on disposal of subsidiaries	–	(0.60)	–	–	**–**
Profit before tax	104.83	187.13	419.25	785.46	**755.54**
Income tax expense	(3.33)	(5.81)	(36.32)	(67.61)	**(30.06)**
Profit after tax and before minority interests	101.50	181.32	382.93	717.85	**725.48**
Minority interests	0.10	–	2.77	0.19	**(4.06)**
Net profit for the year	101.60	181.32	385.70	718.04	**721.42**

	As at 31 December				
	2003 *(US$'million)*	2004 *(US$'million)*	2005 *(US$'million)*	2006 *(US$'million)*	2007 *(US$'million)*
Assets and liabilities					
Total assets	1,071.86	2,119.56	3,158.55	4,502.41	**6,706.22**
Total liabilities	(870.82)	(1,488.75)	(1,631.53)	(2,121.41)	**(3,381.05)**
Minority interests	(1.96)	–	(12.05)	(12.02)	**(16.18)**
Capital and reserves	199.08	630.81	1,514.97	2,368.98	**3,308.99**

CORPORATE GOVERNANCE REPORT

The Company has complied with all the code provisions set out in the CCGP throughout the accounting year ended 31 December 2007 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. Given that handset industry is facing challenges from new players brought by the 3C convergence trend, coupled with the U.S. sub-prime crisis led financial uncertainty, rise of global awareness and requirement of environmental issues and consolidation of market share amongst OEM customers and taking into account the continuation in the challenges in implementation of business plan and formulation of business strategies, the Board considers that the present arrangement for Mr. Chin, the Chairman, to hold the office of chief executive officer of the Company is beneficial and in the interests of the Company and its shareholders as a whole. However, in the spirit of corporate governance, the Board will continue to review in the current year the roles of chairman and chief executive officer and, if considered appropriate, separate the two roles in compliance with code provision A.2.1 of the CCGP.

THE BOARD

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

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

Executive directors
Chin Wai Leung, Samuel *(Chairman and Chief Executive Officer)*
Dai Feng Shuh *(Chief Operating Officer)*

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

Independent non-executive directors
Lau Siu Ki *(chairman of the remuneration committee and the audit committee)*
Mao Yu Lang
Edward Fredrick Pensel (resigned on 24 July 2007)
Daniel Joseph Mehan (appointed on 24 July 2007)

CORPORATE GOVERNANCE REPORT

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

Name of director	Number of Board meetings attended in 2007
Chin Wai Leung, Samuel	4/4
Dai Feng Shuh	4/4
Chang Ban Ja, Jimmy	2/4
Gou Hsiao Ling	4/4
Lee Jin Ming	2/4
Lu Fang Ming	4/4
Lau Siu Ki	3/4
Mao Yu Lang	4/4
Edward Fredrick Pensel	1/2
Daniel Joseph Mehan	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.

CHAIRMAN

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

APPOINTMENT, RE-ELECTION AND REMOVAL OF DIRECTORS

The Company entered into a letter of appointment with each of the non-executive directors for a term of three years commencing from 1 December 2007 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
Edward Fredrick Pensel (resigned on 24 July 2007)
Daniel Joseph Mehan (appointed on 24 July 2007)

The principal duties of the remuneration committee are to make recommendations to the Board on the policy and structure for the remuneration of the directors and senior management, and to consider and approve remuneration for the directors and senior management by reference to corporate goals and objectives. The committee shall meet at least once a year if necessary. During the year, the remuneration committee met twice, and by way of written resolutions, in particular, to approve the remuneration of the senior management of the Company and to review share grants and share option grants. The attendance of each member of the remuneration committee is shown below:

Name of director	**Number of remuneration committee meetings attended in 2007**
Lau Siu Ki	2/2
Lee Jin Ming	2/2
Edward Fredrick Pensel	1/1
Daniel Joseph Mehan	1/1

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
Edward Fredrick Pensel (resigned on 24 July 2007)
Daniel Joseph Mehan (appointed on 24 July 2007)

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

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

Name of director	**Number of audit committee meetings attended in 2007**
Lau Siu Ki	4/4
Lee Jin Ming	4/4
Edward Fredrick Pensel	2/2
Daniel Joseph Mehan	2/2

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

CORPORATE GOVERNANCE REPORT

NOMINATION OF DIRECTORS

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

The Board, in accordance with the Articles and through a meeting, considers, nominates and recommends candidates for such directorship and re-election.

AUDITOR'S REMUNERATION

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

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

Services rendered	**Fee paid**
	US$000
Audit services	1,021
Non-audit services	241

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 2007, 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 is responsible for ensuring the effectiveness of the internal controls system within the Group so that objectives of the Group can be achieved. The internal controls system, which includes a defined management structure with well-defined level of authority and proper segregation of duty and physical control, is designed to provide reasonable assurance regarding the achievement of objectives including the effectiveness and efficiency of operations, reliability of financial reporting, safeguarding of assets and compliance with applicable laws and regulations. The Group Internal Audit function plays a major role in assessing and monitoring the internal controls of the Group and formally reports the result of the evaluation on internal control to the executive directors and the senior management on a regular basis. The Group Internal Audit function has unrestricted access to the information that allows it to review all aspects of the internal controls and governance processes within the Group. These include audits of financial, operational and compliance controls of all business and functional units. Audit plans are drawn up based on an assessment of the risk in each operating unit and its materiality in a Group context. Lessons learned are disseminated within the Group as appropriate. The management is responsible for rectifying the deficiencies from the design and operating effectiveness of the internal controls revealed by internal audits. Corrective actions are closely monitored by the executive directors and the Group Internal Audit function. A summary of major findings is reported semiannually to the executive directors and reviewed by the audit committee.

Risk management is a central part of the Group's strategic management, and is the process whereby the Group methodically identifies and manages key risks to the achievement of the Group's overall objectives. The Group Risk Management function marshals the understanding of the potential upside and downside of all those factors which can affect the organisation by establishing an enterprise risk management system to proactively identify, analyse, control and monitor all types of risks associated with its business and operations. Risk assessments and reports will be reported to the senior management on a regular basis. Senior management will then review the risk reports and assess the adequacy of action plans and devise control systems to manage these risks. The results and conclusions will be reported to the executive directors. The enterprise risk management system covers strategic planning, budgetary control, appointment of senior management, performance measurement, assigning responsibilities throughout the Group, human resources management, control over capital expenditure, finance management, supply chain management and legal, information technology, technical, quality, export control and product liability matters.

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

CORPORATE GOVERNANCE REPORT

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

Following specific enquiry made by the Company, all the directors of the Company have confirmed that they have complied with the required standards laid down by the Model Code as set out in Appendix 10 to the Listing Rules throughout the year ended 31 December 2007.

EFFECTIVE COMMUNICATION

At the 2007 annual general meeting, separate resolutions were proposed for shareholders' consideration and approval in respect of each of the key matters, including the re-election of directors, which required approval by the shareholders.

The chairman of the Board and the chairman of the audit committee and the remuneration committee attended the 2007 annual general meeting to answer questions from the shareholders at the meeting.

VOTING BY POLL

At the 2007 annual general meeting, the procedures for demanding a poll by the shareholders were incorporated in the annual general meeting circular. The procedures for demanding a poll by shareholders and for conducting a poll were also explained by the chairman of the Board at the meeting.