Foxconn International Holdings Limited

富士康國際控股有限公司

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

Interim Report 2009

CONTENTS

CORPORATE INFORMATION

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

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GOU Hsiao Ling
LEE Jin Ming
LU Fang Ming

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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.
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STOCK CODE
2038

Deloitte.
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REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

TO THE BOARD OF DIRECTORS OF FOXCONN INTERNATIONAL HOLDINGS LIMITED

Introduction

We have reviewed the interim financial information set out on pages 4 to 26, which comprises the condensed consolidated statement of financial position of Foxconn International Holdings Limited as of 30 June 2009 and the related condensed consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard ("IAS") 34 "Interim Financial Reporting" issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with IAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong, 28 August 2009

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2009

	NOTES	Six months ended 30.6.2009 US$'000 (unaudited)	30.6.2008 US$'000 (unaudited)
Turnover	3	**3,161,747**	4,789,940
Cost of sales		**(2,952,101)**	(4,469,820)
Gross profit		**209,646**	320,120
Other income		**53,264**	130,878
Selling expenses		**(7,939)**	(9,772)
General and administrative expenses		**(123,776)**	(161,646)
Research and development expenses		**(86,877)**	(82,977)
Impairment loss recognised for property, plant and equipment	8	**(10,172)**	–
Impairment loss recognised for goodwill	9	**(28,630)**	–
Interest expense on bank borrowings		**(3,720)**	(18,661)
Share of profits of associates		**1,117**	801
Profit before taxation	4	**2,913**	178,743
Taxation	5	**(20,792)**	(35,940)
(Loss) profit for the period		**(17,879)**	142,803
Other comprehensive income			
Exchange differences arising on translation of foreign operations		**31,890**	164,459
Fair value changes of available-for-sale investments		**(1,836)**	(13,988)
Impairment loss recognised for available-for-sale investments		**2,910**	–
Share of translation reserve of associates		**1,048**	–
Other comprehensive income for the period		**34,012**	150,471
Total comprehensive income for the period		**16,133**	293,274

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME *(Continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2009

	NOTES	Six months ended 30.6.2009 US$'000 (unaudited)	Six months ended 30.6.2008 US$'000 (unaudited)
(Loss) profit for the period attributable to:			
Owners of the Company		**(18,700)**	142,192
Minority interests		**821**	611
		(17,879)	142,803
Total comprehensive income attributable to:			
Owners of the Company		**15,195**	291,515
Minority interests		**938**	1,759
		16,133	293,274
(Loss) earnings per share	7		
Basic		**(US0.26 cents)**	US2.02 cents
Diluted		**(US0.26 cents)**	US1.98 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2009

	NOTES	30.6.2009 US$'000 (unaudited)	31.12.2008 US$'000 (audited)
Non-current assets			
Property, plant and equipment	8	**1,968,942**	2,072,738
Investment properties	8	**39,223**	–
Prepaid lease payments		**169,540**	169,827
Available-for-sale investments		**2,062**	3,898
Interests in associates		**43,088**	40,923
Goodwill	9	**34,445**	63,075
Deferred tax assets	10	**23,073**	20,077
Deposits for acquisition of property, plant and equipment		**19,166**	21,775
Deposits for prepaid lease payments		**–**	15,360
		2,299,539	2,407,673
Current assets			
Inventories		**767,203**	842,863
Investments held for trading		**–**	970
Trade and other receivables	11	**1,408,956**	1,438,638
Bank deposits		**171,549**	132,555
Bank balances and cash		**644,513**	705,037
		2,992,221	3,120,063
Current liabilities			
Trade and other payables	12	**1,440,945**	1,435,284
Bank borrowings	13	**232,847**	477,932
Provision	14	**39,873**	43,290
Tax payable		**55,103**	65,541
		1,768,768	2,022,047

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

AT 30 JUNE 2009

	NOTES	**30.6.2009**	31.12.2008
		US$'000	*US$'000*
		(unaudited)	(audited)
Net current assets		**1,223,453**	1,098,016
Total assets less current liabilities		**3,522,992**	3,505,689
Capital and reserves			
Share capital	*15*	**282,459**	282,458
Reserves		**3,159,122**	3,138,875
Equity attributable to owners of the Company		**3,441,581**	3,421,333
Minority Interests		**35,116**	34,178
Total equity		**3,476,697**	3,455,511
Non-current liabilities			
Deferred tax liabilities	*10*	**6,634**	8,673
Deferred income	*16*	**39,661**	41,505
		46,295	50,178
		3,522,992	3,505,689

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2009

	Attributable to owners of the Company										
	Share capital	**Share premium**	**Special reserve**	**Legal reserve**	**Revaluation reserve**	**Translation reserve**	**Share compensation reserve**	**Retained profits**	**Total**	**Minority interests**	**Total equity**
	US$'000 (unaudited)	*US$'000* (unaudited)	*US$'000* (unaudited)	*US$'000* (unaudited) *(Note1)*	*US$'000* (unaudited)	*US$'000* (unaudited)	*US$'000* (unaudited)	*US$'000* (unaudited)	*US$'000* (unaudited)	*US$'000* (unaudited)	*US$'000* (unaudited)
Balance at 1 January 2008	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
Profit for the period	–	–	–	–	–	–	–	142,192	142,192	611	142,803
Exchange differences arising on translation of foreign operations	–	–	–	–	–	163,311	–	–	163,311	1,148	164,459
Fair value changes of available-for-sale investments	–	–	–	–	(13,988)	–	–	–	(13,988)	–	(13,988)
Total comprehensive income for the period	–	–	–	–	(13,988)	163,311	–	142,192	291,515	1,759	293,274
Issue of ordinary shares under Option Scheme	302	7,031	–	–	–	–	(1,467)	–	5,866	–	5,866
Payment made for equity-settled share based payment	–	–	–	–	–	–	(31,583)	–	(31,583)	–	(31,583)
Recognition of equity-settled share based payment	–	–	–	–	–	–	41,810	–	41,810	–	41,810
Profit appropriations	–	–	–	336	–	–	–	(336)	–	–	–
Dividend paid to minority shareholder of a subsidiary	–	–	–	–	–	–	–	–	–	(1,168)	(1,168)
Capital contribution from minority shareholder of a subsidiary	–	–	–	–	–	–	–	–	–	18,508	18,508
Balance at 30 June 2008	282,400	685,513	15,514	145,870	8,644	369,151	63,979	2,045,529	3,616,600	35,276	3,651,876
Balance at 1 January 2009	282,458	686,913	15,514	145,844	(1,074)	189,634	63,386	2,038,658	3,421,333	34,178	3,455,511
Loss for the period	–	–	–	–	–	–	–	(18,700)	(18,700)	821	(17,879)
Exchange differences arising on translation of foreign operations	–	–	–	–	–	31,773	–	–	31,773	117	31,890
Fair value changes of available-for-sale investments	–	–	–	–	(1,836)	–	–	–	(1,836)	–	(1,836)
Impairment loss recognised for available-for-sale investments	–	–	–	–	2,910	–	–	–	2,910	–	2,910
Share of translation reserve of associates	–	–	–	–	–	1,048	–	–	1,048	–	1,048
Total comprehensive income for the period	–	–	–	–	1,074	32,821	–	(18,700)	15,195	938	16,133
Issue of ordinary shares under Option Scheme	1	15	–	–	–	–	(4)	–	12	–	12
Recognition of equity-settled share based payment	–	–	–	–	–	–	5,041	–	5,041	–	5,041
Transfer *(Note 2)*	–	–	–	–	–	–	(2,075)	2,075	–	–	–
Balance at 30 June 2009	282,459	686,928	15,514	145,844	–	222,455	66,348	2,022,033	3,441,581	35,116	3,476,697

Notes:

(1) The legal reserve of the Company and its subsidiaries (the “Group”) represents statutory reserve attributable to the Company’s subsidiaries in the People’s Republic of China (“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.

(2) The amount represents aggregate of the amount previously recognised in share compensation reserve in respect of those share options forfeited after vesting period.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2009

	Six months ended	
	30.6.2009	30.6.2008
	US$'000	*US$'000*
	(unaudited)	(unaudited)
Net cash from operating activities	**285,217**	391,589
Investing activities		
Purchase of property, plant and equipment	**(78,321)**	(294,441)
Increase in bank deposits	**(35,763)**	(288,320)
Prepaid lease payments made	**(1,085)**	(366)
Proceeds from disposal of property, plant and equipment	**18,762**	2,851
Increase in deposits for acquisition of property, plant and equipment	**–**	(29,188)
Investments in associates	**–**	(47,463)
Increase in deposits for prepaid lease payments	**–**	(21,456)
Proceeds from government subsidies	**–**	241
Net cash used in investing activities	**(96,407)**	(678,142)
Financing activities		
Bank borrowings raised	**1,055,761**	2,370,285
Bank borrowings repaid	**(1,301,001)**	(2,361,894)
Proceeds from issue of new shares	**12**	5,866
Capital contribution from minority shareholder of a subsidiary	**–**	18,508
Net cash (used in) from financing activities	**(245,228)**	32,765
Net decrease in cash and cash equivalents	**(56,418)**	(253,788)
Cash and cash equivalents at 1 January	**705,037**	1,255,117
Effect of foreign exchange rate changes	**(4,106)**	63,230
Cash and cash equivalents at 30 June	**644,513**	1,064,559

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2009

1. BASIS OF PREPARATION

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

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

2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2008 except as described below.

In the current interim period, the Group has applied, for the first time, a number of new and revised standards, amendments and interpretations ("new or revised IFRSs") issued by the International Accounting Standards Board (the "IASB"), which are effective for the Group's financial year beginning on 1 January 2009.

IAS 1 (Revised 2007) Presentation of Financial Statements and IFRS 8 Operating Segments

IAS 1 (Revised 2007) has introduced a number of terminology changes, including revised titles for the condensed consolidated financial statements, and has resulted in a number of changes in presentation and disclosure. IFRS 8 is a disclosure Standard that requires the identification of operating segments to be performed on the same basis as financial information that is reported internally for the purpose of allocating resources between segments and assessing their performance. The predecessor Standard, IAS 14 "Segment Reporting", required the identification of two sets of segments (business and geographical) using a risks and returns approach. In the past, the Group's primary reporting format was geographical segments by location of customers. The application of IFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with IAS 14 (see note 3). The adoption of other new and revised IFRSs has had no material effect on the reported results and financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

IAS 23 (Revised 2007) Borrowing Costs

In previous years, the Group expensed all borrowing costs that were directly attributable to the acquisition, construction or production of a qualifying asset when they were incurred. IAS 23 (Revised 2007) removes the option available under the previous version of the Standard to recognise all borrowing costs as expenses immediately and requires all such borrowing costs to be capitalised as part of the cost of the qualifying asset. The Group has applied the transitional requirements in IAS 23 (Revised 2007) and applied the revised accounting policy to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. As the revised accounting policy has been applied prospectively, it does not have a material impact on reported results and financial position of the Group for the current accounting period. Accordingly, no adjustment has been recognised.

In addition, the Group transferred its property, plant and equipment to investment properties for which details are disclosed in note 8 to the condensed consolidated financial statements. The accounting policy for the investment properties are summarised as below:

Investment properties

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

If an item of property, plant and equipment carried at cost model becomes an investment property because its use has changed as evidenced by end of owner-occupation, such transfer do not change the carrying amount of the property transferred. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is charged so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

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

3. SEGMENT INFORMATION

The Group has adopted IFRS 8 with effect from 1 January 2009. IFRS 8 requires operating segments to be identified on the basis of internal reports about the components of the Group that are regularly reviewed by the chief operating decision maker, the Chief Executive Officer, in order to allocate resources to the segment and to assess its performance. In the past, the Group's primary reporting format was geographical segments by location of customers. The application of IFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with IAS 14, nor has the adoption of IFRS 8 changed the basis of measurement of segment profit or loss.

The Group is currently organised into three operating segments – Asia, Europe and America.

Segment information is presented below:

	Six months ended	
	30.6.2009	30.6.2008
	US$'000	*US$'000*
	(unaudited)	(unaudited)
EXTERNAL SALES		
Asia	**1,433,452**	2,152,308
Europe	**621,999**	1,261,557
America	**1,106,296**	1,376,075
Total	**3,161,747**	4,789,940
RESULTS		
Asia	**114,093**	161,362
Europe	**41,744**	91,662
America	**62,317**	80,046
	218,154	333,070
Other income	**26,645**	108,156
Administrative and development expenses	**(210,653)**	(244,623)
Impairment loss recognised for goodwill	**(28,630)**	–
Interest expense on bank borrowings	**(3,720)**	(18,661)
Share of profits of associates	**1,117**	801
Profit before taxation	**2,913**	178,743

3. SEGMENT INFORMATION *(Continued)*

Segment profits represent the gross profits earned by each segment including the service income and impairment loss recognised for property, plant and equipment. This is the measure reported to the Chief Executive Officer, for the purposes of resources allocation and performance assessment.

4. PROFIT BEFORE TAXATION

	Six months ended	
	30.6.2009	30.6.2008
	US$'000	*US$'000*
	(unaudited)	(unaudited)
Profit before taxation has been arrived at after charging (crediting):		
Allowance for doubtful debts	**572**	2,111
Write down (write back) of inventories	**11,620**	(5,994)
Amortisation of prepaid lease payments (included in general and administrative expenses)	**1,552**	1,338
Cost of inventories recognised as expense	**2,944,566**	4,456,496
Provision for warranty	**7,535**	13,324
Depreciation of property, plant and equipment	**122,737**	111,318
Decrease in fair value of investments held for trading	**–**	2
Impairment loss recognised for available-for-sale investments	**2,910**	–
Interest income from bank	**(6,654)**	(17,390)

5. TAXATION

	Six months ended	
	30.6.2009	30.6.2008
	US$'000	*US$'000*
	(unaudited)	(unaudited)
Current tax	**11,833**	31,970
Under(over) provision in prior periods	**14,024**	(901)
	25,857	31,069
Deferred tax *(note 10)*		
– Current period	**(4,146)**	4,871
– Change in tax rate	**(919)**	–
	20,792	35,940

The Company's subsidiary, Foxconn Precision Component (Beijing) Co., Ltd. ("Foxconn Beijing"), has previously applied the concessionary tax rate of 18% according to the circular on the Implementation of Transitional Preferential Policies for Enterprise Income Tax by Guo Fa [2007] No. 39. Foxconn Beijing received a tax notification (開國稅所通[2009] 271號) on 18 May 2009 from the State Administration of Taxation for withdrawing Foxconn Beijing from applying the concessionary tax rate and required to apply the standard tax rate of 25% with effect from 1 January 2008. Foxconn Beijing was requested to pay the tax undercharged in 2008 according to Guo Shui Han [2009] No. 203 announced on 22 April 2009. The tax expense undercharged for prior year of US$18,000,000 (RMB 125,000,000) was charged to profit or loss in current period.

The change in tax rate in current period was mainly arising from the change in tax rate of Foxconn Beijing.

6. DIVIDEND

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

7. (LOSS) EARNINGS PER SHARE

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

	Six months ended	
	30.6.2009	30.6.2008
	US$'000	*US$'000*
	(unaudited)	(unaudited)
(Loss) earnings		
(Loss) profit for the purposes of calculating basic and diluted (loss) earnings per share	**(18,700)**	142,192
Number of shares		
Weighted average number of ordinary shares for the purposes of basic (loss) earnings per share	**7,061,459,409**	7,056,186,749
Effect of dilutive potential ordinary shares:		
Share options	**–**	143,151,305
Weighted average number of ordinary shares for the purposes of diluted (loss) earnings per share	**7,061,459,409**	7,199,338,054

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

8. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

During the period, the Group acquired property, plant and equipment of approximately US$80,932,000 (2008: US$294,441,000).

In addition, the Group disposed of certain property, plant and equipment with a carrying amount of US$20,463,000 (2008: US$4,355,000) for proceeds of US$18,762,000 (2008: US$2,851,000), resulting in a loss on disposal of US$1,701,000 (2008: US$1,504,000).

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

The Group reviews property, plant and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of property, plant and equipment is measured by comparing its carrying amount to the projected discounted cash flows that are expected to generate from property, plant and equipment. Impairment loss of US$10,172,000 (2008: nil) has been recognised during the period.

9. GOODWILL

The amount represents goodwill resulted from acquisition of 76.34% interest in Chi Mei Communications Systems, Inc., ("CMCS") in 2005.

At 30 June 2009, the management of the Group assessed the recoverable amount of CMCS with reference to the value-in-use and determined that goodwill was impaired by US$28,630,000 (2008: nil). The main factor contributing to the impairment of the cash generating unit was due to the change in the business strategy of its customers which developed fewer projects.

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

That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and discount rate of 14.92% (2008: 14.92%). Cash flows beyond the 5-year period has been extrapolated using a steady 1% growth rate (2008: 1%) for further 15 years. The growth rate and budgeted gross margin are determined based on the unit's past performance and management's expectations for the market development.

10. DEFERRED TAXATION

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

	Allowances for inventories, trade and other receivables	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 2008	(4,856)	(6,520)	121	(2,556)	(5,517)	(2,559)	(21,887)
Charge (credit) to profit or loss for the period	619	3,019	5	(250)	536	942	4,871
Exchange differences	(296)	(347)	11	(183)	(379)	(133)	(1,327)
At 30 June 2008	(4,533)	(3,848)	137	(2,989)	(5,360)	(1,750)	(18,343)
At 1 January 2009	(5,844)	(3,355)	103	(374)	(5,272)	3,338	(11,404)
Charge (credit) to profit or loss for the period	(1,804)	(430)	(22)	363	602	(2,855)	(4,146)
Effect of change in tax rate	(243)	(327)	–	6	285	(640)	(919)
Exchange differences	(5)	(3)	(1)	5	(6)	40	30
At 30 June 2009	(7,896)	(4,115)	80	–	(4,391)	(117)	(16,439)

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

	30.6.2009	31.12.2008
	US$'000	*US$'000*
	(unaudited)	(audited)
Deferred tax assets	**(23,073)**	(20,077)
Deferred tax liabilities	**6,634**	8,673
	(16,439)	(11,404)

10. DEFERRED TAXATION *(Continued)*

At 30 June 2009, the Group has unused tax losses of US$427,793,000 and deductible temporary difference of US$130,175,000 (31.12.2008: US$310,138,000 and US$120,404,000 respectively) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately US$1,498,000 of such losses as at 31 December 2008. No deferred tax asset has been recognised during current period in respect of the unused tax losses of US$427,793,000 and deductible temporary difference of US$46,443,000 (31.12.2008: US$308,640,000 and US$55,186,000 respectively) 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 2013.

Deferred taxation has not been provided for in the condensed consolidated financial statements in respect of the temporary differences attributable to the undistributed profits earned by the subsidiaries, as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not be reversed in the foreseeable future.

11. TRADE AND OTHER RECEIVABLES

	30.6.2009	31.12.2008
	US$'000	*US$'000*
	(unaudited)	(audited)
Trade receivables	**1,162,009**	1,114,584
Other receivables, deposits and prepayments	**246,947**	324,054
	1,408,956	1,438,638

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

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

	30.6.2009	31.12.2008
	US$'000	*US$'000*
	(unaudited)	(audited)
0-90 days	**1,155,383**	1,108,015
91-180 days	**3,868**	5,586
181-360 days	**2,456**	386
Over 360 days	**302**	597
	1,162,009	1,114,584

12. TRADE AND OTHER PAYABLES

	30.6.2009	31.12.2008
	US$'000	*US$'000*
	(unaudited)	(audited)
Trade payables	**1,143,884**	1,008,666
Accruals and other payables	**297,061**	426,618
	1,440,945	1,435,284

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

	30.6.2009	31.12.2008
	US$'000	*US$'000*
	(unaudited)	(audited)
0-90 days	**1,125,055**	961,841
91-180 days	**3,384**	34,229
181-360 days	**8,212**	6,296
Over 360 days	**7,233**	6,300
	1,143,884	1,008,666

13. BANK BORROWINGS

	30.6.2009	31.12.2008
	US$'000	*US$'000*
	(unaudited)	(audited)
Proceeds from bills receivables discounted with recourse	**172,847**	–
Bank loans	**60,000**	477,932
	232,847	477,932

	30.6.2009	31.12.2008
Analysis of bank borrowings by currency:		
USD	**60,000**	425,829
Renminbi	**172,847**	–
Japanese Yen	**–**	52,103
	232,847	477,932

The bank borrowings as at the end of the reporting period are unsecured, obtained with original maturity of one year or less than one year and carry interest rate ranging from 0.6% to 1.65% (2008: 1.37% to 5.32%) per annum.

14. PROVISION

	Warranty provision US$'000
At 1 January 2008	77,961
Exchange adjustments	2,029
Provision for the year	41,993
Utilisation of provision	(78,693)
At 31 December 2008	43,290
Exchange adjustments	(247)
Provision for the period	7,535
Utilisation of provision	(10,705)
At 30 June 2009	39,873

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.

15. SHARE CAPITAL

	Number of shares	Amount US$'000
Ordinary shares of US$0.04 each, authorised:		
Balance at 31 December 2008 and 30 June 2009	20,000,000,000	800,000
Ordinary shares of US$0.04 each, issued and fully paid:		
Balance at 1 January 2008	7,052,459,250	282,098
Exercise of share options	8,998,745	360
Balance at 31 December 2008	7,061,457,995	282,458
Exercise of share options	16,000	1
Balance at 30 June 2009	7,061,473,995	282,459

16. DEFERRED INCOME

	30.6.2009	31.12.2008
	US$'000	*US$'000*
	(unaudited)	(audited)
Government subsidies	33,657	34,456
Sale and leaseback transaction	6,004	7,049
	39,661	41,505

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

17. COMMITMENTS

	30.6.2009	31.12.2008
	US$'000	*US$'000*
	(unaudited)	(audited)
Commitments for the acquisition of property, plant and equipment contracted but not provided for	88,759	108,483

18. SHARE-BASED PAYMENT TRANSACTIONS

(a) Equity-settled share option scheme

The Company has a share option scheme for eligible employees of the Group. Details of the share options outstanding during the current period are as follows:

Option type	Outstanding at 1.1.2009	Granted during period	Exercised during period	Lapsed during period	Expired during period	Outstanding at 30.6.2009
2005	305,700,192	–	(16,000)	(24,162,439)	–	281,521,753
2007 A	2,400,000	–	–	–	–	2,400,000
	308,100,192	–	(16,000)	(24,162,439)	–	283,921,753

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

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

103,945,423 share options are exercisable as at 30 June 2009 (31.12.2008: 113,306,262).

In respect of the share options exercised during the current period, the weighted average share price at the dates of exercise is approximately US$0.73 (equivalent to approximately HK$5.70).

The Group recognised total expense of US$1,973,000 (2008: US$9,172,000) for the six months ended 30 June 2009 in relation to the share options granted by the Company.

(b) Cash-settled share-based payments

The Group issued to certain employees share appreciation rights ("SAR") at exercise prices ranging from HK$3.96 to HK$26.05 with vesting period ranging from one to three years from the grant date. The SARs require the Group to pay the intrinsic value of the SAR to the employee at the date of exercise. At 30 June 2009, the Group has recorded liabilities of US$1,215,000 (31.12.2008: US$1,314,000). The fair value of the SARs is determined using the Black-Scholes pricing model. The Group recorded total expenses of US$264,000 (2008: US$160,000) during the six months ended 30 June 2009 in respect of SARs.

(c) Other share-based payment plan

The Group has recognised total expense of US$3,068,000 for the current period in relation to free shares granted (2008: US$32,638,000).

19. RELATED PARTY DISCLOSURES

(a) During the period, the Group entered into the following transactions with related parties, including Hon Hai Precision Industry Company Limited ("Hon Hai"), the ultimate holding company, subsidiaries and associates of Hon Hai other than members of the Group:

	Six months ended	
	30.6.2009	30.6.2008
	US$'000	*US$'000*
	(unaudited)	(unaudited)
Hon Hai:		
Sales of goods	**236**	1,474
Purchase of goods	**11,388**	24,214
Sales of property, plant and equipment	**1,739**	–
Purchase of property, plant and equipment	**144**	2,728
Subcontracting income	**855**	787
Consolidated services and subcontracting expense	**886**	158
General services income	**4,300**	2,364
General services expense	**–**	7
Subsidiaries of Hon Hai:		
Sales of goods	**15,949**	11,522
Purchase of goods	**51,099**	137,464
Sales of property, plant and equipment	**11,572**	1,488
Purchase of property, plant and equipment	**724**	1,582
Lease income	**31**	–
Lease expense	**2,624**	3,273
Subcontracting income	**3,784**	4,394
Consolidated services and subcontracting expense	**13,739**	20,446
General services income	**352**	184
General services expense	**16,032**	17,629
Associates of Hon Hai:		
Sales of goods	**18,535**	671
Purchase of goods	**72,327**	124,516
Sales of property, plant and equipment	**1,603**	3
Purchase of property, plant and equipment	**1,555**	2,529
Lease income	**1,356**	–
Lease expense	**543**	582
Subcontracting income	**1,424**	884
Consolidated services and subcontracting expense	**3,353**	220
General services income	**1,436**	717
General services expense	**1,508**	2,127

19. RELATED PARTY DISCLOSURES *(Continued)*

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

	30.6.2009	31.12.2008
	US$'000	*US$'000*
	(unaudited)	(audited)
Trade receivables:		
Hon Hai	**2,104**	4,777
Subsidiaries of Hon Hai	**24,365**	25,613
Associates of Hon Hai	**19,502**	5,499
	45,971	35,889
Other receivables:		
Hon Hai	**5**	10
Subsidiaries of Hon Hai	**749**	344
Associates of Hon Hai	**99**	349
	853	703
	46,824	36,592
Trade payables:		
Hon Hai	**5,659**	7,065
Subsidiaries of Hon Hai	**50,686**	58,802
Associates of Hon Hai	**56,296**	65,606
	112,641	131,473
Other payables:		
Hon Hai	**470**	95
Subsidiaries of Hon Hai	**618**	2,205
Associates of Hon Hai	**2,110**	3,993
	3,198	6,293
	115,839	137,766

The amounts are unsecured, interest free and are repayable within one year.

19. RELATED PARTY DISCLOSURES *(Continued)*

(c) Compensation of key management personnel

The remuneration of directors and other members of key management for the period was as follows:

	Six months ended	
	30.6.2009	30.6.2008
	US$'000	*US$'000*
	(unaudited)	(unaudited)
Short-term benefits	**1,060**	1,787
Share-based payments	**706**	1,556
	1,766	3,343

20. APPROVAL

The condensed consolidated financial statements on pages 4 to 26 were approved and authorised for issue by the board of directors of the Company ("Board") on 28 August 2009.

MANAGEMENT DISCUSSION AND ANALYSIS

Review of Results and Operations

For the six-month period ended 30 June 2009, the Group recorded a 33.99% year-on-year decrease in consolidated turnover of US$3,162 million (2008: US$4,790 million). Loss for the period attributable to owners of the Company was US$19 million compare to a profit of US$142 million for the same period last year. Basic earnings per share for the period was a loss of US0.26 cents.

With global handset shipment reduced from 610 millions units in first six months of 2008 to 520 millions units in first six months of 2009, global handset industry continues to face challenging environment during the first six months of 2009. On top of the continual market share shifts among global OEM brands witnessed since 2007, the industry remains besieged by global markets uncertainties resulting from Sub-prime crisis. The volatile market conditions and changing operating environment has created challenges for all players in the handset supply chain. As the result, the Company has seen lower demand and pricing for the products due to the global economic downturn.

In 2009, the global handset market and global economy could remain volatile. Considering the market environment and demand condition, higher value products' contribution, new customers' penetration and capacity rationalization remain challenging for the management. At the same time, due to the dramatic differences in asset valuation, thus, goodwill impairment had also been main reason for the loss resulted in first six months of the Company.

Liquidity and Financial Resources

As at 30 June 2009, we had a cash balance of US$645 million. The cash balance is expected to be able to finance our operations. Our gearing ratio, expressed as a percentage of interest bearing external borrowings of US$233 million over total assets of US$5,292 million, was 4.40%.

Net cash generated from operating activities for the six-month period ended 30 June 2009 was US$285 million. Net cash used in investing activities for the six-month period ended 30 June 2009 was US$96 million of which US$78 million was the expenditures on property, plant and equipment related to the facilities in our major sites in China, US$36 million increased in bank deposit and US$19 million represented proceeds from disposal of property, plant and equipment.

Net cash used in financing activities for the six-month period ended 30 June 2009 was US$245 million, primarily due to net decrease in bank loans of US$245 million.

Exposures to Currency Risk and Related Hedges

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

Besides, the Group sometimes entered into short-term foreign currency forward contracts (usually with tenor less than 3 months) to hedge the currency risk resulting from its short-term bank loans (usually with tenors less than 3 months) denominated in the foreign currencies. Also, the Group, from time to time, utilized a variety of foreign currency forward contracts to hedge its exposure to foreign currencies.

Capital Commitments

As at 30 June 2009, the capital commitment of the Group was US$88.76 million (2008: US$108.48 million). Usually, the capital commitment will be funded by cash generated from operations.

Pledge of Assets

A subsidiary of the Company has pledged its corporate assets of approximately US$5.4 million (2008: US$5.6 million) to secure general banking facilities granted to the Group.

Outlook

Looking forward, the macro uncertainty originated from the Sub-prime crisis continues to cloud transparency. We believe the ability to broaden value-added offerings will be the key to industry competitiveness. We remain hopeful in further market share growing opportunity for 2009 and beyond.

Employees

As at 30 June 2009, the Group had a total of 115,250 (2008: 108,237) employees. Total staff costs incurred during the period of six months ended 30 June 2009 amounted to US$234 million (2008: US$301 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").

OTHER INFORMATION

Directors

Mr. Dai Feng Shuh resigned as an executive director of the Company on 28 August 2009. Mr. Chih Yu Yang was appointed as an executive director of the Company on 28 August 2009.

Mr. Lau Siu Ki was appointed as an independent non-executive director of Binhai Investment Company Limited on 23 March 2009. He acted as independent non-executive director of Sys Solutions Holdings Limited for the period from 6 September 2002 to 20 December 2006 and of Forefront International Holdings Limited for the period from 25 May 2001 to 18 April 2007.

Disclosure of Interests

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

As at 30 June 2009, 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 the chief executives were taken or deemed to have under such provisions of the SFO), or which were required to be and were 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	Nature of interest	Total number of ordinary shares	Approximate percentage of interest in the Company/ associated corporations
CHIN Wai Leung, Samuel	Company	Personal Interest	13,749,475	0.1950%
	Hon Hai	Personal Interest	642,493	0.0087%
DAI Feng Shuh *(note 1)*	Company	Personal Interest	21,698,275	0.3073%
	Hon Hai	Personal Interest	124,249	0.0017%
		Family Interest	557,400	0.0075%
CHANG Ban Ja, Jimmy	Hon Hai	Personal Interest	2,549,743	0.0344%
LEE Jin Ming *(note 2)*	Hon Hai	Personal Interest	1,883,711	0.0254%
		Through a trust	322,000	0.0043%
LU Fang Ming *(note 3)*	Hon Hai	Personal Interest	1,985,223	0.0268%
		Family Interest	937,000	0.0126%
		Through a trust	904,800	0.0122%

OTHER INFORMATION *(Continued)*

Disclosure of Interests *(Continued)*

Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures (Continued)

Notes:

1. 557,400 shares are beneficially owned by Ms. Lee Ming Hua, the spouse of Mr. Dai Feng Shuh, and his child under the age of eighteen. Accordingly, Mr. Dai Feng Shuh is deemed to be interested in 557,400 shares which are beneficially owned by Ms. Lee Ming Hua and his child for the purposes of the SFO.

2. 322,000 shares are held by a trust of which Mr. Lee Jin Ming is the beneficiary. Accordingly, Mr. Lee Jin Ming is deemed to be interested in 322,000 shares which are held by the trust for the purposes of the SFO.

3. 937,000 shares are beneficially owned by Ms. Chen Hui Ling, the spouse of Mr. Lu Fang Ming, and his child under the age of eighteen. 904,800 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 937,000 shares which are beneficially owned by Ms. Chen Hui Ling and his child, and in 904,800 shares which are held by the trust for the purposes of the SFO.

Save as disclosed above, none of the directors or the chief executives of the Company had, as at 30 June 2009, 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 the chief executives were taken or deemed to have under such provisions of the SFO), or which were required to be and were 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 Shareholder's Interests and Short Positions in Shares and Underlying Shares

So far as is known to any director of the Company, as at 30 June 2009, shareholder (other than the directors or the 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:

OTHER INFORMATION *(Continued)*

Disclosure of Interests *(Continued)*

Substantial Shareholder's Interests and Short Positions in Shares and Underlying Shares (Continued)

Name of substantial shareholder	Capacity/ Nature of interest	Total number of ordinary shares	Approximate percentage of interest in the Company
Foxconn (Far East) Limited	Beneficial owner	5,081,034,525	71.95%
Hon Hai *(note)*	Interest of a controlled corporation	5,081,034,525	71.95%

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 30 June 2009, the Company had not been notified by any persons (other than the directors or the 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.

SHARE OPTION SCHEME

Movements of the share options granted under the share option scheme during the period of six months ended 30 June 2009 are as follows:

Outstanding at the beginning of the period of six months ended 30 June 2009	Date of grant	Granted during the period of six months ended 30 June 2009	Vesting period	Exercise price	Exercise during the period of six months ended 30 June 2009	Lapsed during the period of six months ended 30 June 2009	Cancelled during the period of six months ended 30 June 2009	Expired during the period of six months ended 30 June 2009	Outstanding at the end of the period of six months ended 30 June 2009
305,700,192	–	–	each year on 25 July from 2006 to 2011	HK$6.06	16,000	24,162,439	–	–	281,521,753
2,400,000	–	–	each year on 16 July from 2008 to 2013	HK$20.63	–	–	–	–	2,400,000
308,100,192		–			16,000	24,162,439	–	–	283,921,753

Apart from the share option scheme above and the share scheme, at no time during the period of six months ended 30 June 2009 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.

DIVIDEND

The directors did not recommend the payment of an interim dividend for the period of six months ended 30 June 2009.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the period of six months ended 30 June 2009.

RESERVES

Movements in reserves of the Group during the period of six months ended 30 June 2009 are set out on page 8.

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 (among whom one of the independent non-executive directors has the appropriate professional qualifications or accounting or related financial management expertise as required under the Listing Rules).

The audit committee has reviewed the unaudited interim results and the interim report of the Group for the period of six months ended 30 June 2009.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules. Following specific enquiry made by the Company, all the directors of the Company have confirmed that they have complied with the required standard set out in the Model Code throughout the period of six months ended 30 June 2009.

CORPORATE GOVERNANCE

The Company has complied with all the code provisions set out in the CCGP throughout the period of six months ended 30 June 2009 except for code provision A.2.1, which requires that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

Under code provision A.2.1 of the CCGP, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Chin Wai Leung, Samuel currently holds both positions in the Company. In light of the still opaque macro outlook the world is facing and the relatively challenging environment handset industry operates in, the Board considers that the present arrangement for Mr. Chin, the chairman, to hold the office of chief executive officer of the Company is instrumental to the continuation in implementation of business plan and formulation of business strategies and crucial to avoid create unnecessary confusion over stability to customers worldwide, thus 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.

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

Hong Kong, 28 August 2009