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FOXCONN INTERNATIONAL HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2038

ANNUAL REPORT 2012

CONTENTS

CORPORATE INFORMATION
FOXCONN INTERNATIONAL HOLDINGS LIMITED (the "Company")

EXECUTIVE DIRECTORS
TONG Wen-hsin *(Chairman)*
CHIH Yu Yang *(Chief Executive Officer)*
LEE Jer Sheng

NON-EXECUTIVE DIRECTOR
LEE Jin Ming

INDEPENDENT NON-EXECUTIVE DIRECTORS
LAU Siu Ki
Daniel Joseph MEHAN
CHEN Fung Ming

COMPANY SECRETARY
LAW Sai Hay

REGISTERED OFFICE
Floor 4, Willow House
Cricket Square, P O Box 2804
Grand Cayman KY1-1112
Cayman Islands

HEAD OFFICE
No. 18 Youyi Road
Langfang Economic and
Technological Development Zone
Hebei Province
People's Republic of China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG
8th Floor, Peninsula Tower
538 Castle Peak Road
Cheung Sha Wan
Kowloon
Hong Kong

AUDITORS
Deloitte Touche Tohmatsu

LEGAL ADVISORS
Baker & McKenzie, Hong Kong
Clifford Chance, Hong Kong
Mayer Brown JSM, Hong Kong

PRINCIPAL BANKERS
Agricultural Bank of China
Bank of Beijing
Bank of China
China Everbright Bank
China Guangfa Bank
China Merchants Bank
Chinatrust Commercial Bank
Citibank
Industrial Bank
Industrial and Commercial Bank of China
Mizuho Corporate Bank
Standard Chartered Bank
Taipei Fubon Bank
The Hongkong and Shanghai Banking
Corporation Limited

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE
Royal Bank of Canada Trust Company
(Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE
Computershare Hong Kong Investor Services Limited
46th Floor, Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

STOCK CODE
2038

CHAIRMAN'S STATEMENT

Dear Shareholders,

It was a challenging year for many players in the handset industry in 2012. Economic uncertainties coupled with the competitive landscape changes of the industry further increased our operational hurdles. Another wave of customer product portfolio adjustments took place and created impact to our business. We also had to restructure our global capacities to cope with these dramatic changes. Despite our continuous efforts in costs rationalisation and new business development, we still saw our 2012 results turned out less than satisfactory.

Revenue for the year 2012 was US$5,240 million, which represents a change of US$1,114 million, or 17.5% decrease, when compared with the prior year's revenue of US$6,354 million. Loss for the year 2012 attributable to owners of the Company was US$316 million, when compared with the profit for the prior year of US$73 million. Basic loss per share for the year 2012 was US4.33 cents.

In the year of 2012, we saw two major trends. Firstly, a fast-growing smart phone segment with a penetration rate beyond earlier market expectations. This was due to more players entering into the mass market to enable the sales of lots of Android-based phones. Instead of the much anticipated 19% of total market penetration, we saw smart phone shipment hit 680.1 million sets, which represented 38.9% of global shipment in 2012 according to Gartner Market Statistics. This, in turn, created impact to average selling price of smart phones and the content/pricing of the outsourced business.

Secondly, we saw continuous industry profit concentration onto the leading brands. Several low-cost brand players ran into difficult conditions. It also created ever-tougher price competition in the handset manufacturing market. To differentiate from our competitors, our end-to-end handset manufacturing services solutions, which have long been appreciated by our customers, were critical in winning businesses in such a difficult market environment.

With such a backdrop, we had taken actions to control our operating expenses and optimised our cost structure. Several right-sizing moves were taken in the sites where we saw less business volumes. We had reviewed and consolidated our organisation to save direct and indirect labour costs, while introducing more automation to our operations. New customer development efforts were deployed to balance the impact of business weakness in some areas. Nevertheless, our improvement move was not speedy enough to mitigate all challenges in our operations.

We were aware of these impacts and had taken all necessary actions to improve our situation. We did see signs of improvement from these turn-around actions since the second half of 2012. We need to execute all necessary actions to bring the Company and its subsidiaries (collectively, the "Group") back to a sustainable long-term successful path.

As the new Chairman of the Group from 1 January 2013, I am grateful for the trust and confidence from the other members of the board of directors (the "Board") and shareholders of the Company. I am also appreciative of the continuous support from my fellow management team. Working closely with our CEO, Mr. Calvin Chih, I am confident we have the right talents to lead the Group back to a competitive position.

Last but not least, I am thankful to Mr. Samuel Chin, my predecessor, for his great contribution and dedication to the Group. Mr. Chin was a major driving force for our success in the past and has been my personal mentor and friend. I wish him very best in his future pursuits.

With best regards,

TONG Wen-hsin
Chairman

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF RESULTS AND OPERATIONS

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

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

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

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

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

Whilst our commitment to deploy meaningful resources in R&D remained, we managed to optimise our R&D resources. To cope with business changes and market volatility, we had to continue to curtail investments in some areas and keep our investment in design engineering resources for smart phones in Taiwan and the PRC. Such resources were highly appreciated by our existing and new customers as we have been able to tremendously enrich their respective product portfolios and shorten their products' availability to market thus enhancing such products' competitiveness. Our customers can now focus on product development, marketing, sales and distribution whilst leaving us to take care of their product design and supply chain. Through such tactic, we have succeeded in developing smart phone ODM business with our existing and new customers. Given our unique competitive position in the ODM/EMS universe and our accumulated experience on product design and manufacturing, we believe that we still remain as the major manufacturing and supply chain partner to our existing and new customers. At the same time, our aggressive business development and customer diversification efforts, especially in the Asia area, remain a top priority to approach potential customers and penetrate new customers by providing one-stop-shop and end-to-end solutions from design, manufacturing to logistics with a view to developing a more comprehensive and extensive customer base.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

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

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

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

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

Net cash used in financing activities for the year ended 31 December 2012 was US$265 million, primarily due to net decrease in bank loans of US$268 million, proceeds of US$14 million from the issue of shares to employees and purchase of additional interest in a subsidiary of US$11 million.

EXPOSURES TO CURRENCY RISK AND RELATED HEDGES

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

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

CAPITAL COMMITMENT

As at 31 December 2012, the capital commitment of the Group was US$27.2 million (2011: US$67.1 million). Usually, the capital commitment will be funded by cash generated from operations.

MANAGEMENT DISCUSSION AND ANALYSIS

PLEDGE OF ASSETS

A subsidiary of the Company has pledged its corporate assets of approximately US$0.3 million (2011: US$1.7 million) to secure general banking facilities granted to the Group.

OUTLOOK

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

EMPLOYEES

As at 31 December 2012, the Group had a total of 70,051 (2011: 98,868) employees. Total staff costs incurred during the year 2012 amounted to US$462 million (2011: US$533 million). The Group offers a comprehensive remuneration policy which is reviewed by the management on a regular basis.

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

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

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

TONG Wen-hsin, aged 47, is now the Chairman and an executive Director of the Company. He has over 21 years of experience in the investment banking, finance and information technology fields as well as general management experience. He joined the Company as director of investments and investor relations in July 2004 and has been a member of the Company's senior management team since then. During the period from May to December 2012, he was the head overseeing and supervising the respective functions and responsibilities of different departments of the Company, including its investment management, investor relations, accounting/tax, finance, legal and compliance, company secretarial and internal audit services departments. Mr. Tong was appointed as an executive Director and the Chairman of the Company effective 26 July 2012 and 1 January 2013 respectively. He is also a director of certain subsidiaries of the Company, namely Chi Mei Communication Systems, Inc. ("CMCS"), Evenwell Holdings Limited, FIH Co., Ltd., FIH RadioShack (Asia) Retail Holdings Limited, First Honest Enterprises Limited, Foxconn (Nanjing) Communications Co., Ltd., Fu Hong Enterprises Limited, Success World Holdings Limited and Wide-Ranging Investments Limited respectively. Further, he is the statutory auditor of a subsidiary of the Company, namely FIH Technology Korea Ltd. Mr. Tong also serves as a director of Ways Technical Corp., Ltd. ("Ways Technical") which is a limited company incorporated in Taiwan and whose shares are traded on the Taiwan OTC Exchange. 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.

CHIH Yu Yang, aged 54, joined the Company as an executive Director in August 2009. He was appointed as the chief executive officer of the Company and the chairman of the corporate governance committee of the Company effective 26 July 2012. Mr. Chih is the chairman and chief executive officer of CMCS in Taiwan, a subsidiary of the Company which is the primary mobile handset design services arm of the Group. Mr. Chih joined the Group in 2005 when the Group acquired CMCS. Prior to that, Mr. Chih was the founder of CMCS since its establishment in 2001. He is also a director of certain other subsidiaries of the Company, namely Evenwell Digitech Inc., Executar International Limited, FIH Technology Korea Ltd., Greater Success Investments Limited and Transworld Holdings Limited respectively. He has 33 years of extensive experience in the communication industries. From 1997 to 2001, Mr. Chih was the vice president and general manager of Communication B.U. in BenQ (formerly Acer Communication and Multimedia, Inc.) where he was responsible for BenQ's cellular phone business. Prior to that, he held various engineering and managerial positions in companies including ITT Corporation, GTE Corporation and Rockwell Semiconductor Systems. Mr. Chih obtained a Bachelor of Science degree in Electrical Engineering from National Tsing Hua University in Taiwan in 1980.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

Dr. LEE Jer Sheng, aged 49, joined the Company as an executive Director in June 2010. He was appointed as a member of the corporate governance committee of the Company effective 22 March 2012. Dr. Lee joined the Company as director of mechanical production in June 2004. Before joining the Company, he had worked for 鴻海精密工業股份有限公司 (also known as Hon Hai Precision Industry Co. Ltd.), the ultimate controlling shareholder of the Company ("Hon Hai") since February 1998 and had been one of the principal managers responsible for the handset manufacturing services business of Hon Hai, its subsidiaries and associates (collectively, the "Hon Hai Group") since January 2002. Dr. Lee has almost 21 years of mechanical engineering and production management experience. He is also a director of certain subsidiaries of the Company, namely Ease Cheer Holdings Limited, Eastern Leap Holdings Limited, Eastern Source Investments Limited, Excel True Holdings Limited, Extra Harmony Limited, Extra High Enterprises Limited, FIH Co., Ltd., Foxconn India Private Limited, Foxconn Oy, Foxconn Precision Component (Beijing) Co., Ltd., Foxconn Precision Electronics (Langfang) Co., Ltd., Foxconn (Tian Jin) Precision Industry Co., Ltd., Grand Champion Trading Limited, Shenzhen Futaihong Precision Industrial Co., Ltd., Success World Holdings Limited, Transworld Communication Systems Inc. and Wise Excel Limited respectively. Dr. Lee is also a director of Ways Transworld Inc. (a jointly controlled entity of the Company). He also serves as a director of Ways Technical. Prior to that, Dr. Lee held various positions in automotive industry in Taiwan. Dr. Lee received a B.S. in Aerospace Engineering from National Cheng Kung University, Taiwan in 1986 and a Ph.D. in Mechanical Engineering and Applied Mechanics from the University of Michigan (Ann Arbor), US in 1993.

LEE Jin Ming, aged 60, joined the Company as a non-executive Director in December 2004. He is a member of the audit committee and remuneration committee respectively of the Company. Mr. Lee was appointed as a member of the nomination committee of the Company effective 22 March 2012. 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, the immediate holding company of the Company. Mr. Lee has over 33 years of banking, corporate finance and accounting related international financial experience. Mr. Lee obtained a Bachelor of Arts degree from the National Chengchi University, Taiwan in 1974.

LAU Siu Ki, aged 54, joined the Company as an independent non-executive Director in December 2004. He is the chairman of the audit committee and remuneration committee respectively of the Company. Mr. Lau was appointed as the chairman of the nomination committee of the Company effective 22 March 2012. He has over 30 years of experience in corporate finance, financial advisory and management, accounting and auditing. Mr. Lau is currently a financial advisory consultant running his own management consultancy firm, Hin Yan Consultants Limited. Previously, Mr. Lau worked at Ernst & Young for over 15 years. He graduated from Hong Kong Polytechnic in 1981. Mr. Lau is a member of both the Association of Chartered Certified Accountants ("ACCA") and Hong Kong Institute of Certified Public Accountants. Mr. Lau was a member of the World Council of ACCA from 2002 to 2011 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 of Binhai Investment Company Limited, COL Capital Limited, Comba Telecom Systems Holdings Limited, Embry Holdings Limited, Samson Holding Ltd. and TCL Communication Technology Holdings Limited.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

Dr. Daniel Joseph MEHAN, aged 68, joined the Company as an independent non-executive Director in July 2007. He is a member of the audit committee and remuneration committee respectively of the Company. Dr. Mehan was appointed as a member of the nomination committee of the Company effective 22 March 2012. He 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.

CHEN Fung Ming, aged 66, joined the Company as an independent non-executive Director in November 2008. Mr. Chen is the chairman of Prolight Opto Technology Corp. in Taiwan which provides high power LED packaging for lighting application. From 2006 to 2008, Mr. Chen was a director of Beyond Innovation Technology Corp. in Taiwan specialising in IC design for video application. He has extensive experience in the electronics and lighting industries. Mr. Chen obtained a Bachelor of Science degree in Physics from Fu Jen Catholic University in Taiwan in 1970. He also received from the University of Wisconsin-Madison, US, a Master of Science degree in Physics and a Master of Science degree in Computer Science in 1974.

SENIOR MANAGEMENT

CHAO Shan Ping, Henry, aged 56, joined the Company as director of electronic parts production and assembly in June 2004. Before joining the Company, Mr. Chao was with Hon Hai since September 1996 and was responsible for SMT and computer motherboard manufacturing processes and had been one of the principal managers responsible for the handset manufacturing services business of the Hon Hai Group since March 2001. He is also a director of certain subsidiaries of the Company, namely Effinville International Limited, Eternity Sparkle Holdings Limited, Ever Lucky Industrial Limited, Extra Power International Limited, FIH Technology Korea Ltd., Foxconn India Developer Private Limited, Foxconn Precision Component (Beijing) Co., Ltd., Foxconn Precision Electronics (Langfang) Co., Ltd., Honxun Electrical Industry (Hangzhou) Co., Ltd., KSB International Limited, Rocombe Limited and Topper World Investments Limited respectively. Prior to that, Mr. Chao held various production and engineering management positions with Wang Computer and Delta Electronics. He has over 28 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 49, joined the Company as director of mechanical production in June 2004. Before joining the Company, he was with Hon Hai since July 1992 and had been one of the principal managers responsible for the handset manufacturing services business of the Hon Hai Group since July 2000. Mr. Ko has over 28 years of mechanical engineering and production management experience. He is also a director of certain subsidiaries of the Company, namely Foxconn India Developer Private Limited, Foxconn Precision Component (Beijing) Co., Ltd., Futaijing Precision Electronics (Beijing) Co., Ltd. and Langfang Fertile Plan International Logistics Co., Ltd. respectively. Prior to that, Mr. Ko held various positions in mechanical engineering and production with Philips and Matsushita Electric (Taiwan) Co., Ltd. Mr. Ko received a Master of Science degree in Mechanical Engineering from National Taiwan University, Taiwan in 1992.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

WANG Chien Ho, Janson, aged 53, joined the Company as director of electronic parts manufacturing and SMT and system assembly in June 2004. Before joining the Company, Mr. Wang joined the Hon Hai Group in June 1996 as an operation manager. He was then responsible for SMT and mother board manufacturing in Czech Europe as director of factory operation in 1999. In 2004, he was responsible for setting up a new factory of PCBA and engine production in FIH Europe in Hungary. Mr. Wang was promoted to a vice president responsible for ODM operation in Shenzhen, China in 2007. From 2009, he has started to be based in northern China. He has over 26 years of extensive experience in manufacturing operation and engineering management. Mr. Wang obtained a Bachelor degree in Electronics Engineering from Feng Chia University, Taiwan in 1982.

TAM Kam Wah, Danny, aged 49, joined the Company as senior manager of financial control in October 2004. Mr. Tam is the chief financial officer of the Company. He is responsible for accounting and internal and external financial reporting, financial planning, taxation, internal control, corporate governance, risk management and performance management of the Group. Mr. Tam has over 25 years of experience in accounting and finance in Hong Kong listed companies and multinational companies. He is also an alternate director of Rocombe Limited, a subsidiary of the Company in the United Kingdom, and the statutory auditor of KSB International Limited, a subsidiary of the Company in Korea. Prior to joining the Company, he worked as a financial controller for ITT Industries and Hutchison Harbour Ring Ltd. and he also worked as an accounting manager for Coates Brothers (HK) Co., Ltd. Mr. Tam is a fellow of the Association of Chartered Certified Accountants, an associate of Chartered Institute of Management Accountants and an associate of Hong Kong Institute of Certified Public Accountants. Mr. Tam received a BBA from Chinese University of Hong Kong in 1988, a Master of Applied Finance from Macquarie University, Australia in 1994, a Master of Business Administration degree from University of Ottawa, Canada in 1996, and a Master of Arts degree in Information System and a Master of Arts degree in Electronic Business from City University of Hong Kong in 1999 and 2002 respectively. Mr. Tam also received a Master of Accounting from Jinan University in 2005.

KUO Chun Hung, aged 46, is the Treasurer and Head of the Finance Department of the Company. He joined the Company as senior financial officer in June 2004. He is also the supervisor of certain subsidiaries of the Company, namely Futaijing Precision Electronics (Beijing) Co., Ltd. and Foxconn Precision Electronics (Langfang) Co., Ltd. respectively. Before joining the Company, he was one of the financial managers of the Hon Hai Group since September 2000. Mr. Kuo has 20 years of experience in finance and accounting. He joined the cement projects of IFC (International Financial Corporation, a member of World Bank) and GIC (Government of Singapore Investment Corporation) in Jiangsu, China from 1995 to 2000. Mr. Kuo received a Bachelor of Finance Management from Chengchi University, Taiwan in 1993 and a MBA from Tsinghua University, Beijing in 2005. He had completed the Corporate Leadership and Strategy program of EMBA program with MIT Sloan School of Management.

REPORT OF THE DIRECTORS

The Board hereby announces this annual report, particularly the audited consolidated results of the Group for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of the principal subsidiaries are set out in the financial statements on pages 98 to 100. 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 2012 are set out in the financial statements on pages 27 to 28. The Board does not recommend the payment of any dividends in respect of the year ended 31 December 2012.

RESERVES

Movements in reserves of the Group during the year are set out on page 31.

DISTRIBUTABLE RESERVES

As at 31 December 2012, the Company's reserves available for distribution amounted to US$1,693,183,000.

SHARE CAPITAL

Details of the movements in the share capital during the year are set out in note 27 to the financial statements.

FINANCIAL SUMMARY

A financial summary of the results of the Group for the last five financial years is set out on page 103.

PROPERTY, PLANT AND EQUIPMENT, AND INVESTMENT PROPERTIES

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

BANK LOANS

Details of bank loans are set out in note 26 to the financial statements.

DIRECTORS

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

Executive Directors

TONG Wen-hsin (appointed on 26 July 2012)
CHIN Wai Leung, Samuel (resigned on 1 January 2013)
CHENG Tien Chong (appointed on 1 January 2012 and resigned on 26 July 2012)
CHIH Yu Yang
LEE Jer Sheng

Non-executive Directors

CHANG Ban Ja, Jimmy (resigned on 31 May 2012)
GOU Hsiao Ling (resigned on 1 January 2012)
LEE Jin Ming

Independent Non-executive Directors

LAU Siu Ki
Daniel Joseph MEHAN
CHEN Fung Ming

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

Pursuant to article 112 of the articles of association of the Company (the "Articles"), one-third of the directors for the time being (or, if their number is not three or a multiple of three, then the number nearest to, but not exceeding one-third) shall retire from office by rotation at each annual general meeting of the Company provided that every director shall be subject to retirement by rotation at least once every three years. In accordance with article 112 of the Articles, Mr. CHIH Yu Yang will retire from office by rotation at the Company's forthcoming annual general meeting and, being eligible, will offer himself for re-election at such meeting, whereas Mr. LEE Jin Ming, although being eligible, will not offer himself for re-election at such meeting due to his other business commitments with the Hon Hai Group. Mr. Lee has confirmed that he has no disagreement with the Board and there is no other matter relating to his retirement that needs to be brought to the attention of the shareholders of the Company. Pursuant to article 95 of the Articles, Mr. TONG Wen-hsin was appointed as an executive director effective 26 July 2012 and, being eligible, will offer himself for re-election at the Company's forthcoming annual general meeting.

Mr. CHIN Wai Leung, Samuel retired from his positions as an executive director and the chairman of the Company effective 1 January 2013, due to his desire to spend more time with his family. It followed that he ceased to be the Company's authorised representative effective 1 January 2013. However, he was appointed as the advisor to chairman of the Company for a term of 12 months (subject to earlier termination as mutually agreed) effective 1 January 2013.

Mr. TONG Wen-hsin was appointed as the chairman of the Company effective 1 January 2013. He was also appointed as the Company's authorised representative effective 1 January 2013. He was also appointed as a director of certain subsidiaries of the Company, namely Fu Hong Enterprises Limited effective 29 October 2012, FIH RadioShack (Asia) Retail Holdings Limited effective 31 January 2013 and First Honest Enterprises Limited effective 31 January 2013. His other biographical details are set out in "Profile of Directors and Senior Management" above.

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, any of its subsidiaries, its holding company or any subsidiary of the Company's holding company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of or at any time during the year.

DISCLOSURE OF INTERESTS

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

As at 31 December 2012, the interests and short positions, if any, of each director and chief executive of the Company in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the directors and chief executive 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 which were otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") adopted by the Company were as follows:

Name of director	Name of corporation	Capacity/ Nature of interest	Total number of ordinary shares	Approximate percentage of interest in the Company/ associated corporation
TONG Wen-hsin *(Note 1)*	Company	Personal Interest	1,403,305	0.0192%
	Hon Hai	Personal Interest	48,059	0.0004%
CHIN Wai Leung, Samuel *(Note 2)*	Company	Personal Interest	19,264,200	0.2634%
	Hon Hai	Personal Interest	870,706	0.0074%
CHIH Yu Yang	Company	Personal Interest	3,786,396	0.0518%
	Hon Hai	Personal Interest	318,198	0.0027%
	CMCS *(Note 3)*	Personal Interest	1,000	0.0007%
LEE Jer Sheng *(Note 4)*	Company	Personal Interest	1,899,562	0.0260%
		Jointly-held Interest	100,000	0.0014%
LEE Jin Ming *(Note 5)*	Hon Hai	Personal Interest	387,373	0.0033%
		Through a Trust	1,000,000	0.0084%

Notes:

1. 1,403,305 shares include 1,346,063 shares which are issuable upon exercise of share options granted under the share option scheme of the Company.

2. Mr. CHIN Wai Leung, Samuel retired as an executive director and the chairman of the Company with effect from 1 January 2013.

3. The Company indirectly, through its wholly-owned subsidiaries, holds approximately 85.79% of the entire issued share capital of CMCS, a company incorporated in Taiwan.

4. 1,899,562 shares include 1,780,485 shares which are issuable upon exercise of share options granted under the share option scheme of the Company and upon vesting of the share grants granted under the share scheme of the Company. 100,000 shares are beneficially and jointly owned by Dr. LEE Jer Sheng and Ms. TING Kuei Feng, the spouse of Dr. LEE Jer Sheng. Accordingly, Dr. LEE Jer Sheng is deemed to be interested in 100,000 shares which are jointly held by him and his spouse for the purposes of the SFO.

5. 1,000,000 shares are held by a trust in which Mr. LEE Jin Ming is the beneficiary. Accordingly, Mr. LEE Jin Ming is deemed to be interested in 1,000,000 shares which are held by the trust for the purposes of the SFO.

Save as disclosed above, none of the directors or chief executive of the Company had, as at 31 December 2012, 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 executive of the Company 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 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 2012, shareholders (other than the directors or chief executive 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 required to be and were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

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	69.49%
Hon Hai *(Note)*	Interest of a controlled corporation	5,081,034,525	69.49%

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 2012, the Company had not been notified by any persons (other than the directors or chief executive 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 required to be and were recorded in the register required to be kept by the Company under Section 336 of the SFO.

REMUNERATION OF SENIOR MANAGEMENT

The remuneration payable to the five members of the senior management of the Company (whose biographical details were disclosed in "Profile of Directors and Senior Management" set forth in the 2011 annual report of the Company) during the year were within the following bands:

	Number of senior management
HK$500,001 to HK$1,000,000	2
HK$1,000,001 to HK$1,500,000	2 *(Note 1)*
HK$1,500,001 to HK$2,000,000	–
HK$2,000,001 to HK$2,500,000	1 *(Note 2)*

Notes:

1. One of the two members of the senior management of the Company ceased to be such with effect from 26 July 2012.

2. This member of the senior management of the Company ceased to be such with effect from 1 August 2012.

CONTINUING CONNECTED TRANSACTIONS

Sub-contracting Income Transaction

The Group has provided sub-contracting services to the Hon Hai Group from time to time for a term up to 31 December 2013 pursuant to the framework sub-contracting agreement dated 18 January 2005 (as amended by the respective supplemental agreements dated 12 January 2006, 24 October 2007 and 19 November 2010) between the Company and Hon Hai. Hon Hai is the ultimate controlling shareholder of the Company. Therefore, the transactions contemplated under the framework sub-contracting agreement (the "Sub-contracting Income Transaction") constitute a continuing connected transaction for the Company, and the Company had set the then existing annual caps for the Sub-contracting Income Transaction for each of the three years ending 31 December 2013.

The Group has developed specialised production capabilities and expertise in handset manufacturing. The Company considered it in its best interests to generate more income by carrying out the Sub-contracting Income Transaction as long as the sub-contracting services were provided at prices that were fair and reasonable.

It was anticipated that the Hon Hai Group would require additional sub-contracting services from the Group under the Sub-contracting Income Transaction. The Company considered that it was in its interests to utilise the Group's available handset manufacturing expertise, resources and facilities, together with support from the Hon Hai Group through its consignment of the necessary equipment and facilities at the Hon Hai Group's sole cost and expense without charges, to provide the additional sub-contracting services to the Hon Hai Group at prices agreeable to the Company thereby generating additional income for the Group. As such, the Company envisaged that the then existing annual caps for the Sub-contracting Income Transaction for 2012 and 2013 might not be sufficient.

Therefore, on 26 July 2012, the Company proposed new annual caps for the Sub-contracting Income Transaction for each of the two years ending 31 December 2013 at US$150 million for 2012 and US$463 million for 2013 (the "Proposed Annual Caps"). On even date, the Company and Hon Hai entered into a supplemental agreement (the "Supplemental Agreement"), pursuant to which (among other things) the Hon Hai Group would consign without charges necessary equipment and facilities to the Group for use in effecting the relevant Sub-contracting Income Transactions upon and subject to the terms and conditions set out therein.

The Proposed Annual Caps were determined with reference to projections of the Company which in turn were prepared by the Company mainly with reference to the following major factors:

- the audited actual amount of the Sub-contracting Income Transaction for the year ended 31 December 2011;
- the additional sub-contracting services that the Group might provide to the Hon Hai Group for 2012 and 2013 having regard to the corresponding production plan for such additional sub-contracting services as agreed between the Group and the Hon Hai Group; and
- a buffer of 5%.

Based on the Proposed Annual Caps, the Sub-contracting Income Transaction constitutes a non-exempt continuing connected transaction for the Company under the Listing Rules and therefore the Sub-contracting Income Transaction, the Supplemental Agreement and the Proposed Annual Caps were subject to approval by the Company's shareholders other than Hon Hai and its associates (as defined in the Listing Rules) (the "Independent Shareholders"). On 13 September 2012, the Sub-contracting Income Transaction, the Supplemental Agreement and the Proposed Annual Caps were approved by the Independent Shareholders at the Company's extraordinary general meeting.

Consolidated Services and Sub-contracting Expense Transaction

The Hon Hai Group has provided, among others, sub-contracting services to the Group from time to time for a term up to 31 December 2013 pursuant to the framework consolidated services and sub-contracting agreement entered into among the Company, Hon Hai, PCE Industry Inc. (a subsidiary of Hon Hai) and Sutech Industry Inc. (an indirect wholly-owned subsidiary of the Company) on 24 October 2007 (as amended by the supplemental agreement dated 19 November 2010 between the Company and Hon Hai) (collectively, the "Consolidated Services and Sub-contracting Expense Agreement"). Hon Hai is the ultimate controlling shareholder of the Company. Therefore, the transactions contemplated under the Consolidated Services and Sub-contracting Expense Agreement (the "Consolidated Services and Sub-contracting Expense Transaction") constitute a continuing connected transaction for the Company, and the Company had set the then existing annual caps for the Consolidated Services and Sub-contracting Expense Transaction for each of the three years ending 31 December 2013.

The Company considered that the services provided by the Hon Hai Group under the Consolidated Services and Sub-contracting Expense Transaction as requested by the Group could enhance the Group's handset manufacturing and related capacity, provide the Group with greater flexibility and allow the Group to carry on its business more efficiently.

Utilising the Hon Hai Group's manufacturing resources cost-effectively, the Group had been requiring additional sub-contracting services from the Hon Hai Group at prices agreeable to the Company and determined in accordance with the prescribed pricing mechanism under the Consolidated Services and Sub-contracting Expense Agreement. Such additional sub-contracting services from the Hon Hai Group had been increasing and it was anticipated that the then existing annual caps for the Consolidated Services and Sub-contracting Expense Transaction for 2012 and 2013 might not be sufficient.

Therefore, on 12 November 2012, the Company set new annual caps for the Consolidated Services and Sub-contracting Expense Transaction for each of the two years ending 31 December 2013 at US$57 million for 2012 and US$96 million for 2013.

The new annual caps were determined with reference to projections of the Company which in turn were prepared by the Company mainly with reference to the following major factors:

- the audited actual transaction amounts of the Consolidated Services and Sub-contracting Expense Transaction for the years ended 31 December 2010 and 2011;

- the actual growth of the additional sub-contracting services in 2012 from 2011; and

- a buffer of 5%.

Hon Hai Master Sourcing Transaction

On 31 January 2013, First Honest Enterprises Limited (an indirect wholly-owned subsidiary of the Company), RadioShack Global Sourcing (Hong Kong) Ltd. (a wholly-owned subsidiary of RadioShack Corporation) and Perfect Legend Development Limited (now known as FIH RadioShack (Asia) Retail Holdings Limited and being an indirect 51%-owned subsidiary of the Company) (the "JV") entered into an amended and restated joint venture agreement relating to the JV (the "JV Agreement").

In connection with the JV Agreement, it was agreed that the JV and the relevant members of the Hon Hai Group would enter into a master sourcing agreement in the form that had been agreed (the "Hon Hai Master Sourcing Agreement"), pursuant to which (among other things) the JV and its subsidiary (collectively, the "JV Group") would source from the Hon Hai Group television sets bearing certain trademarks of RadioShack Corporation and its subsidiaries (collectively, the "RadioShack Group") and other consumer electronics and related products upon and subject to the terms and conditions set out therein. Hon Hai is the ultimate controlling shareholder of the Company. Therefore, the transactions contemplated under the Hon Hai Master Sourcing Agreement (the "Hon Hai Master Sourcing Transaction") constitute a continuing connected transaction for the Company.

In view of the manufacturing capabilities of the Hon Hai Group, the JV Group would source from the Hon Hai Group television sets bearing certain trademarks of the RadioShack Group at prices to be determined under the pricing policy set out in the Hon Hai Master Sourcing Agreement. Furthermore, in view of the Hon Hai Group's network in the computer, communication and consumer electronics ("3C") industries, the Company considered that the Hon Hai Master Sourcing Agreement would broaden the JV Group's supplier base enhancing its ability to seek competitive product range and prices.

On even date, the Company set annual cap for the Hon Hai Master Sourcing Transaction for the year ending 31 December 2013 at US$43 million, which was determined with reference to:

- the business plan and estimates in relation to the retail stores to be opened and operated by the JV Group in 2013;
- the television sets bearing the trademarks of the RadioShack Group to be sourced from the Hon Hai Group having regard to the terms of the Hon Hai Master Sourcing Agreement and certain trademark licence agreement between a member of the RadioShack Group and the JV and the proposed terms of a trademark licence agreement to be entered into between Hon Hai and the JV; and
- a 5% buffer.

In view that the JV is a new business operation, the Company will review the performance of the JV in 2013 and before the end of 2013 as appropriate will set annual caps for the Hon Hai Master Sourcing Transaction for the remaining term of the Hon Hai Master Sourcing Agreement after 31 December 2013.

Overview

An overview of the continuing connected transactions of the Company during the year is as follows:

1. Product sales transactions between the Group and the Hon Hai Group *(Note 1)*;
2. Lease expense transactions between the Group and the Hon Hai Group *(Note 2)*;
3. General services expense transactions between the Group and the Hon Hai Group *(Note 3)*;
4. Sub-contracting income transactions between the Group and the Hon Hai Group *(Note 4)*;
5. Equipment sale and purchase transactions between the Group and the Hon Hai Group *(Note 5)*;
6. Materials and components supply transactions between the Group and the Hon Hai Group *(Note 6)*;
7. Lease income transactions between the Group and the Hon Hai Group *(Note 7)*;
8. General services income transactions between the Group and the Hon Hai Group *(Note 8)*; and
9. Consolidated services and sub-contracting expense transactions between the Group and the Hon Hai Group *(Note 9)*.

Notes:

1. This refers to the sale of certain products to the Hon Hai Group by the Group pursuant to the framework product sales agreement dated 18 January 2005 (as amended by the supplemental agreements dated 28 February 2006, 24 October 2007 and 19 November 2010 respectively) between the Company and Hon Hai for an extended term commencing from 1 January 2011 to 31 December 2013. The Company considered it in its best interests to generate more income by carrying out the product sales transactions in response to the Hon Hai Group's needs from time to time, provided that the Hon Hai Group purchased from the Group at prices comparable to market prices and/or which were considered to be fair and reasonable to the Company. The total consideration for the year ended 31 December 2012 paid by the Hon Hai Group was US$80.845 million.

2. This refers to the properties leased by the Hon Hai Group to the Group pursuant to the framework lease agreement dated 18 January 2005 (as amended by the supplemental agreements dated 12 January 2006, 20 September 2006, 24 October 2007 and 19 November 2010 respectively) between the Company and Hon Hai for an extended term commencing from 1 January 2011 to 31 December 2013. A part of the Group's operations in the PRC is located in the Hon Hai Group's industrial parks in the PRC in view of the benefits of locating close to the members of the Hon Hai Group which possess leading capabilities and expertise amid the convergence trend within the 3C industries, and the physical proximity can lead to additional savings and efficiency to the Group if the Group's customers select these members of the Hon Hai Group as the vendors approved by the customers of the Group. The total consideration for the year ended 31 December 2012 paid to the Hon Hai Group was US$1.783 million.

3. This refers to the general administrative, support, utility and other services provided by the Hon Hai Group to the Group pursuant to the general services agreement dated 18 January 2005 (as amended by the supplemental agreements dated 12 January 2006, 24 October 2007 and 19 November 2010 respectively) between the Company and Hon Hai for an extended term commencing from 1 January 2011 to 31 December 2013. Certain production facilities of the Group are located at premises owned and managed by the Hon Hai Group and leased to the Group under the lease expense transactions. Within such premises, the Hon Hai Group provides a number of general administrative, support, utility and other services to all tenants, including the Group, which are necessary for the tenants to carry out their operations in such locations. The Company considered it more cost effective for the Group to share some other services provided by the Hon Hai Group, such as product testing, specialist inspection and information technology and communication services. The total consideration for the year ended 31 December 2012 paid to the Hon Hai Group was US$24.683 million.

4. This refers to the sub-contracting services provided to the Hon Hai Group by the Group pursuant to the framework sub-contracting agreement dated 18 January 2005 (as amended by the supplemental agreements dated 12 January 2006, 24 October 2007, 19 November 2010 and 26 July 2012 respectively) between the Company and Hon Hai for an extended term commencing from 1 January 2011 to 31 December 2013. The Company considered it in its best interests to generate more income by carrying out the sub-contracting income transactions as long as the services were provided at prices that were fair and reasonable pursuant to the relevant agreements governing the sub-contracting income transactions. The total consideration for the year ended 31 December 2012 paid by the Hon Hai Group was US$72.49 million.

5. This refers to equipment purchased by the Group from and sold by the Group to the Hon Hai Group pursuant to the framework equipment purchase agreement dated 18 January 2005 (as amended by the supplemental agreements dated 12 January 2006, 24 October 2007 and 19 November 2010 respectively) between the Company and Hon Hai for an extended term commencing from 1 January 2011 to 31 December 2013 and the framework equipment sale agreement dated 18 January 2005 (as amended by the supplemental agreements dated 12 January 2006, 24 October 2007 and 19 November 2010 respectively) between the Company and Hon Hai for an extended term commencing from 1 January 2011 to 31 December 2013. From time to time certain equipment of the Group no longer meets the production needs of the Group which may be as a result of a number of factors, such as new product specifications required by customers, capacity planning and new production arrangements. However, such equipment may be useful to the Hon Hai Group for its businesses. The Hon Hai Group is able to customise standard industry equipment to varying degrees to better suit the production processes of the Company. Purchasing equipment from the Hon Hai Group helps accelerate delivery time of the equipment to the Group. The Group in the past also purchased used equipment that was in good condition from the Hon Hai Group at the book value of the equipment in Hon Hai's accounts. It is usually more convenient for the Group to obtain the required maintenance services for the customised equipment from the Hon Hai Group. The total considerations for the year ended 31 December 2012 for equipment purchase transactions paid to the Hon Hai Group and equipment sale transactions paid by the Hon Hai Group were US$14.562 million and US$58.49 million respectively.

6. This refers to the supply of materials and components by the Hon Hai Group to the Group pursuant to the framework materials and components supply agreement dated 19 January 2005 (as amended by the supplemental agreements dated 28 February 2006, 24 October 2007 and 19 November 2010 respectively) between the Company and Hon Hai for an extended term commencing from 1 January 2011 to 31 December 2013. Hon Hai is the leading player in the 3C manufacturing services industry. Under the convergence trend of the 3C industries, an increasing number of types of materials and components manufactured by the Hon Hai Group are used for the manufacture of handsets. The Company believed that it was an important competitive advantage of the Group in the handset manufacturing service industry that the Group together with the members of the Hon Hai Group could provide a range of vertically integrated manufacturing services to the customers. Furthermore, a number of the members of the Hon Hai Group are vendors approved by the customers of the Group. The Group is required by its customers to purchase many of the key materials and components from the vendors approved by the customers of the Group. The total consideration for the year ended 31 December 2012 paid to the Hon Hai Group was US$605.647 million.

7. This refers to the properties leased by the Group to the Hon Hai Group pursuant to the framework lease agreement dated 24 October 2007 (as amended by the supplemental agreement dated 19 November 2010) between the Company and Hon Hai for an extended term commencing from 1 January 2011 to 31 December 2013. The Group has built its own manufacturing premises and there may be surplus space from time to time. The Company considered it in its best interests to lease out such surplus space and generate additional income for the Group at prices comparable to the market and/or above the costs attributable to the leased premises pursuant to the relevant agreements governing the lease income transactions. The total consideration for the year ended 31 December 2012 paid by the Hon Hai Group was US$0.92 million.

8. This refers to the general administrative, support, utility and other services provided by the Group to the Hon Hai Group pursuant to the framework general services agreement dated 24 October 2007 (as amended by the supplemental agreement dated 19 November 2010) between the Company and Hon Hai for an extended term commencing from 1 January 2011 to 31 December 2013. The Group will from time to time lease premises owned by the Group to the Hon Hai Group under the lease income transactions. Within such premises, the Group will have its operation together with its general administrative, support, utility and other services. The Company considered it efficient and in the interest of the Company to generate additional income by extending its existing general administrative, support, utility and other services to the Hon Hai Group that operates on such premises or as requested by the Hon Hai Group from time to time at a fair and reasonable price determined based on the relevant agreements governing the general services income transactions. The total consideration for the year ended 31 December 2012 paid by the Hon Hai Group was US$1.088 million.

9. This refers to the research and development services, design services, repair services and sub-contracting services provided by the Hon Hai Group to the Group pursuant to the framework consolidated services and sub-contracting agreement dated 24 October 2007 (as amended by the supplemental agreement dated 19 November 2010) between the Company and Hon Hai for an extended term commencing from 1 January 2011 to 31 December 2013. The Company considered that the services provided by the Hon Hai Group under the consolidated services and sub-contracting expense transactions as requested by the Group could enhance the Group's handset manufacturing and related capacity, provide the Group with greater flexibility and allow the Group to carry on its business more efficiently. The total consideration for the year ended 31 December 2012 paid to the Hon Hai Group was US$42.125 million.

Pursuant to rule 14A.38 of the Listing Rules, the Board engaged the auditors of the Company to report on the continuing connected transactions of the Group and the auditors have confirmed that 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 have reported their factual findings 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.

CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS

The related party transactions referred to in note 37(a) to the financial statements have also constituted continuing connected transactions as defined in Chapter 14A of the Listing Rules (which details are disclosed above), except that the Group's disposal of a subsidiary to a wholly-owned subsidiary of Hon Hai (as more particularly described in note 31 to the financial statements) has constituted a connected transaction as defined in Chapter 14A of the Listing Rules.

The Company confirms that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

SHARE OPTION SCHEME AND SHARE SCHEME

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

Option Scheme

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

Category of grantee	Outstanding at the beginning of the year	Date of grant during the year	Granted during the year	Vesting period	Exercise price	Exercised during the year	Lapsed/ Expired during the year	Cancelled during the year	Outstanding at the end of the year
Employees	2,400,000	–	–	each year on 16 July from 2008 to 2013	HK$20.63	–	(2,400,000)	–	–
Directors									
TONG Wen-hsin*	1,426,063	–	–	each year on 1 January from 2012 to 2014	HK$3.62	(80,000)	–	–	1,346,063
LEE Jer Sheng	1,701,553	–	–	each year on 1 January from 2012 to 2014	HK$3.62	–	–	–	1,701,553
Employees	247,534,146	–	–	each year on 1 January from 2012 to 2014	HK$3.62	(29,468,295)	(14,738,833)	–	203,327,018
	253,061,762					(29,548,295)	(17,138,833)	–	206,374,634

* Mr. TONG Wen-hsin was appointed as an executive director of the Company with effect from 26 July 2012.

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 425,995,209 shares, representing approximately 5.72% of the issued share capital of the Company as at the date of this annual report.

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

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

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

Information on the Share Scheme

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

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

As at 21 March 2013, the issued share capital of the Company comprised 7,448,018,334 shares of US$0.04 each. Subject to the passing of an ordinary resolution approving the Scheme Mandate and on the basis that no shares will be issued, purchased or repurchased prior to the forthcoming annual general meeting, exercise in full of the Scheme Mandate will result in 148,960,366 shares being allotted and issued under the Scheme Mandate. On the basis of the closing price of HK$2.89 per share as at 21 March 2013 and the Scheme Mandate being exercised in full, the aggregate market value of the 148,960,366 shares to be allotted and issued pursuant thereto would be approximately HK$430,495,458. 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 28 December 2012, the Company awarded 135,564,990 ordinary shares to a total of 3,890 employees under the Share Scheme, in respect of which some share awards are subject to the corresponding lock-up periods.

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

MAJOR CUSTOMERS AND SUPPLIERS

During the year, sales to the Group's five largest customers accounted for approximately 89.5% of the Group's total sales for the year and sales to the Group's largest customer amounted to approximately 40.36%. Purchases from the Group's five largest suppliers accounted for approximately 63.28% of the Group's total purchases for the year and purchases from the Group's largest supplier amounted to approximately 28.18%.

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

MANAGEMENT CONTRACTS

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

SUFFICIENCY OF PUBLIC FLOAT

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

REPORT OF THE DIRECTORS

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2012.

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 38 to the financial statements.

AUDIT COMMITTEE

The Company has established an audit committee in accordance with the requirements of the Listing Rules, particularly the Code on Corporate Governance Practices (the "CCGP") during the period from 1 January 2012 to 31 March 2012, and the Corporate Governance Code (the "CG Code") during the period from 1 April 2012 to 31 December 2012, as set out in Appendix 14 to the Listing Rules. Its primary duties are to review the Group's financial reporting process and internal control system, nominate and monitor external auditors and provide advice and comments to the Board. The audit committee is comprised of three non-executive directors, two of whom are independent non-executive directors (among whom one of the independent non-executive directors has the appropriate professional qualifications or accounting or related financial management expertise as required under the Listing Rules).

The audit committee has reviewed the audited financial statements of the Group for the year ended 31 December 2012 and recommended the same to the Board for approval.

CORPORATE GOVERNANCE

None of the directors 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 code provisions set out in the CCGP during the period from 1 January 2012 to 31 March 2012 and the CG Code during the period from 1 April 2012 to 31 December 2012.

AUDITORS

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

On behalf of the Board

TONG Wen-hsin
Chairman

Hong Kong, 21 March 2013

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 102, which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

INDEPENDENT AUDITOR'S REPORT

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 2012, and of the Group's loss and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
21 March 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	NOTES	2012 US$'000	2011 US$'000
Turnover	6	**5,239,800**	6,354,417
Cost of sales		**(5,240,425)**	(6,015,670)
Gross (loss) profit		**(625)**	338,747
Other income, gains and losses	7	**192,523**	272,329
Selling expenses		**(21,068)**	(26,979)
General and administrative expenses		**(214,978)**	(247,630)
Research and development expenses		**(173,380)**	(193,894)
Impairment loss recognised for property, plant and equipment	14	**(102,246)**	(6,571)
Interest expense on bank borrowings	26	**(11,442)**	(11,530)
Share of profits of associates		**1,228**	5,529
Share of loss of a jointly controlled entity		**(448)**	–
(Loss) profit before tax	8	**(330,436)**	130,001
Income tax credit (expense)	11	**14,369**	(54,869)
(Loss) profit for the year		**(316,067)**	75,132
Other comprehensive income (expense)			
Exchange differences arising on translation of foreign operations		**10,013**	96,832
Share of translation reserve of associates		**643**	(760)
Share of translation reserve of a jointly controlled entity		**(16)**	–
Reserves released upon loss of control over a subsidiary	30	**(86)**	–
Reserves released upon disposals of subsidiaries		**–**	(35,984)
Reserves released upon partial disposal of interest in an associate		**(737)**	(251)
Other comprehensive income for the year		**9,817**	59,837
Total comprehensive (expense) income for the year		**(306,250)**	134,969

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	NOTES	2012 US$'000	2011 US$'000
(Loss) profit for the year attributable to:			
Owners of the Company		**(316,423)**	72,844
Non-controlling interests		**356**	2,288
		(316,067)	75,132
Total comprehensive (expense) income attributable to:			
Owners of the Company		**(306,266)**	133,397
Non-controlling interests		**16**	1,572
		(306,250)	134,969
(Loss) earnings per share	*13*		
Basic		**(US4.33 cents)**	US1.01 cents
Diluted		**(US4.33 cents)**	US1.01 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	NOTES	2012 US$'000	2011 US$'000
Non-current assets			
Property, plant and equipment	*14*	**1,094,471**	1,457,039
Prepaid lease payments	*16*	**49,378**	51,845
Available-for-sale investments	*18*	**85**	90
Interests in associates	*19*	**31,940**	45,481
Interest in a jointly controlled entity	*20*	**3,741**	–
Deferred tax assets	*21*	**41,127**	21,326
Deposit for acquisition of prepaid lease payments	*17*	**30,340**	30,264
Deposits for acquisition of property, plant and equipment		**37**	456
		1,251,119	1,606,501
Current assets			
Inventories	*22*	**347,918**	608,354
Trade and other receivables	*23*	**1,132,308**	1,411,700
Bank deposits	*32*	**440,133**	409,681
Bank balances and cash	*32*	**1,916,998**	1,512,461
		3,837,357	3,942,196
Assets classified as held for sale	*24*	**–**	62,923
		3,837,357	4,005,119
Current liabilities			
Trade and other payables	*25*	**1,203,455**	1,215,434
Bank borrowings	*26*	**214,901**	483,245
Provision	*33*	**30,211**	28,395
Tax payable		**70,781**	81,222
		1,519,348	1,808,296
Net current assets		**2,318,009**	2,196,823
Total assets less current liabilities		**3,569,128**	3,803,324

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	NOTES	2012 US$'000	2011 US$'000
Capital and reserves			
Share capital	27	**292,493**	288,987
Reserves	28	**3,223,304**	3,451,022
Equity attributable to owners of the Company		**3,515,797**	3,740,009
Non-controlling interests		**10,758**	18,685
Total equity		**3,526,555**	3,758,694
Non-current liabilities			
Deferred tax liabilities	21	**9,090**	8,798
Deferred income	34	**33,483**	35,832
		42,573	44,630
		3,569,128	3,803,324

The consolidated financial statements on pages 27 to 102 were approved and authorised for issue by the board of directors on 21 March 2013 and are signed on its behalf by:

TONG WEN-HSIN
DIRECTOR

CHIH YU YANG
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

	Attributable to owners of the Company										
	Share capital US$'000	**Share premium** US$'000	**Special reserve** US$'000 *(note 28)*	**Other reserve** US$'000 *(note a)*	**Legal reserve** US$'000 *(note 28)*	**Translation reserve** US$'000	**Share compensation reserve** US$'000	**Retained profits** US$'000	**Total** US$'000	**Non-controlling interests** US$'000	**Total** US$'000
Balance at 1 January 2011	286,563	776,191	15,514	–	158,037	373,126	84,704	1,852,892	3,547,027	46,000	3,593,027
Exchange differences arising on translation of foreign operations	–	–	–	–	–	97,548	–	–	97,548	(716)	96,832
Reserves released upon disposal of subsidiaries	–	–	–	–	–	(35,984)	–	–	(35,984)	–	(35,984)
Share of translation reserve of associates	–	–	–	–	–	(760)	–	–	(760)	–	(760)
Reserves released upon partial disposal of interests in an associate	–	–	–	–	–	(251)	–	–	(251)	–	(251)
Other comprehensive income for the year	–	–	–	–	–	60,553	–	–	60,553	(716)	59,837
Profit for the year	–	–	–	–	–	–	–	72,844	72,844	2,288	75,132
Total comprehensive income for the year	–	–	–	–	–	60,553	–	72,844	133,397	1,572	134,969
Issue of ordinary shares under Share Scheme	2,424	37,200	–	–	–	–	(39,624)	–	–	–	–
Disposal of a subsidiary	–	–	–	–	–	–	–	–	–	(28,887)	(28,887)
Payment made for equity-settled share-based payments *(note 39)*	–	–	–	–	–	–	(3,014)	–	(3,014)	–	(3,014)
Recognition of equity-settled share-based payments *(note 39)*	–	–	–	–	–	–	62,599	–	62,599	–	62,599
Profit appropriations	–	–	–	–	3,670	–	–	(3,670)	–	–	–
Transfer *(note b)*	–	–	–	–	–	–	(59,232)	59,232	–	–	–
Balance at 31 December 2011	288,987	813,391	15,514	–	161,707	433,679	45,433	1,981,298	3,740,009	18,685	3,758,694
Exchange differences arising on translation of foreign operations	–	–	–	–	–	10,353	–	–	10,353	(340)	10,013
Share of translation reserve of associates	–	–	–	–	–	643	–	–	643	–	643
Share of translation reserve of a jointly controlled entity	–	–	–	–	–	(16)	–	–	(16)	–	(16)
Reserves released upon loss of control over a subsidiary	–	–	–	–	–	(86)	–	–	(86)	–	(86)
Reserves released upon partial disposal of interests in an associate	–	–	–	–	–	(737)	–	–	(737)	–	(737)
Other comprehensive expenses for the year	–	–	–	–	–	10,157	–	–	10,157	(340)	9,817
Loss for the year	–	–	–	–	–	–	–	(316,423)	(316,423)	356	(316,067)
Total comprehensive income (expenses) for the year	–	–	–	–	–	10,157	–	(316,423)	(306,266)	16	(306,250)
Issue of ordinary shares under Option Scheme and Share Scheme	3,506	50,041	–	–	–	–	(39,761)	–	13,786	–	13,786
Purchase of additional interests in a subsidiary *(note a)*	–	–	–	(3,159)	–	–	–	–	(3,159)	(7,943)	(11,102)
Payment made for equity-settled share-based payments *(note 39)*	–	–	–	–	–	–	(2,691)	–	(2,691)	–	(2,691)
Recognition of equity-settled share-based payments *(note 39)*	–	–	–	–	–	–	74,118	–	74,118	–	74,118
Profit appropriations	–	–	–	–	3,586	–	–	(3,586)	–	–	–
Transfer *(note b)*	–	–	–	–	–	–	(1,349)	1,349	–	–	–
Balance at 31 December 2012	292,493	863,432	15,514	(3,159)	165,293	443,836	75,750	1,662,638	3,515,797	10,758	3,526,555

Notes:

(a) During the current year, the Group purchased additional interests in a non-wholly owned subsidiary of the Company. As a result of the acquisition, the difference of US$3,159,000 between the consideration paid of US$11,102,000 and the amount of non-controlling interests of US$7,943,000 acquired was directly recognised in equity.

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	NOTES	**2012 US$'000**	2011 US$'000
OPERATING ACTIVITIES			
(Loss) profit before tax		**(330,436)**	130,001
Adjustments for:			
Depreciation and amortisation		**215,661**	247,306
Impairment loss recognised for property, plant and equipment		**102,246**	6,571
Loss on disposal of property, plant and equipment		**19,128**	6,109
Write down of inventories		**23,754**	1,192
Share-based payment expenses		**74,118**	62,599
Interest expense		**11,442**	11,530
Interest income		**(57,802)**	(38,969)
Gain on disposals of subsidiaries		**(19)**	(73,303)
Gain on partial disposal of an associate	*19*	**(4,098)**	(4,609)
Deferred income recognised to income		**(2,429)**	(4,533)
(Reversal of allowance) allowance for doubtful debts		**(4,140)**	3,551
Share of profits of associates		**(1,228)**	(5,529)
Share of loss of a jointly controlled entity		**448**	–
Operating cash flows before movements in working capital		**46,645**	341,916
Decrease in inventories		**166,471**	158,317
Decrease in trade and other receivables		**255,636**	296,094
Increase (decrease) in trade and other payables		**106,547**	(296,400)
Increase (decrease) in provision		**1,302**	(648)
Cash generated from operations		**576,601**	499,279
Income taxes paid		**(16,456)**	(33,821)
Interest paid		**(12,102)**	(10,988)
Interest received		**56,740**	36,045
Payments made for share-based payment expenses		**(2,691)**	(3,014)
NET CASH FROM OPERATING ACTIVITIES		**602,092**	487,501

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	NOTES	2012 US$'000	2011 US$'000
INVESTING ACTIVITIES			
Proceeds on disposal of property, plant and equipment		**70,414**	35,340
Consideration received for disposals of assets classified as held for sale	*24*	**58,509**	–
Net proceeds on partial disposal of an associate		**16,822**	9,929
Dividend income from an associate		**1,951**	531
Purchase of property, plant and equipment		**(42,355)**	(177,698)
Placement of bank deposits for investing purpose		**(31,534)**	(132,992)
(Refunded) deposits received in respect of assets classified as held for sale	*24*	**(15,810)**	20,224
Net cash outflow from loss of control over a subsidiary	*30*	**(3,860)**	–
Net cash inflow from disposals of subsidiaries	*24 & 31*	**–**	271,935
Deposits paid for acquisition of property, plant and equipment		**–**	(13,048)
NET CASH FROM INVESTING ACTIVITIES		**54,137**	14,221
FINANCING ACTIVITIES			
Bank borrowings repaid		**(3,324,301)**	(5,107,705)
Bank borrowings raised		**3,056,065**	4,722,153
Proceeds on issue of shares		**13,786**	–
Purchase of additional interests in a subsidiary		**(11,102)**	–
NET CASH USED IN FINANCING ACTIVITIES		**(265,552)**	(385,552)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**390,677**	116,170
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**1,512,461**	1,356,254
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**13,860**	40,037
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, BANK BALANCES AND CASH		**1,916,998**	1,512,461

1. GENERAL

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

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

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

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

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

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

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

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

New and revised IFRSs in issue but not yet effective

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

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

[1] Effective for annual periods beginning on or after 1 January 2013.
[2] Effective for annual periods beginning on or after 1 January 2014.
[3] Effective for annual periods beginning on or after 1 January 2015.
[4] Effective for annual periods beginning on or after 1 July 2012.

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

IFRS 9 Financial instruments

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

Key requirements of IFRS 9 are described as follows:

- All recognised financial assets that are within the scope of IAS 39 "Financial instruments: Recognition and measurement" are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

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

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

IFRS 13 Fair value measurement

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

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

IFRS 13 Fair value measurement *(Continued)*

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

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

IAS 19 (as revised in 2011) Employee benefits

The amendments to IAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in the fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. The amendments require all actuarial gains and losses to be recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus. Furthermore, the interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with a 'net-interest' amount, which is calculated by applying the discount rate to the net defined benefit liability or asset.

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

Amendments to IAS 1 Presentation of items of other comprehensive income

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

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 and by the Hong Kong Companies Ordinance.

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. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The principal accounting policies are set out below:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and 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.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and 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 in line with those used by other members of the Group.

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

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

Allocation of total comprehensive income to non-controlling interests

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted, being the change in proportionate share of the net asset value of subsidiaries and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, it (i) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost, (ii) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognises the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognised as a gain or loss in profit or loss attributable to the Group. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 "Financial instruments: Recognition and measurement" or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Goodwill

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in associates

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

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale (in which case it is accounted for under IFRS 5 Non-current assets held for sale and discontinued operations). The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, investments in associates are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Joint ventures

Jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

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

The financial statements of jointly controlled entities used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances.

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

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

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale. The equity method of accounting is ceased when an associate meets the held for sale classification.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition

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

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

Service income is recognised when services are provided.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

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 in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Prepaid lease payments

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

Leasing

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

The Group as lessor

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

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Leasehold land and building

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

Leasehold land classified as operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis.

Foreign currencies

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

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

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss. In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are reattributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or jointly controlled entities that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of the reporting period. Exchange differences arising are recognised in equity under the heading of translation reserve.

Borrowing costs

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

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

Retirement benefit costs

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

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

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

Taxation

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

Deferred tax is recognised on temporary 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. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary difference 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 associated with investments in subsidiaries, associates and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax is also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

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 activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

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

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred. Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

Impairment losses on tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment losses on tangible assets *(Continued)*

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) 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 (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are 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. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or contention in the marketplace.

Effective interest method

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

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL, of which interest income is included in net gains or losses.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Financial assets at fair value through profit or loss

The Group's financial assets at FVTPL comprise financial assets held for trading.

A financial asset is classified as held for trading if:

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

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

Loans and receivables

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

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment loss at the end of each reporting period.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets

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

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

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- disappearance of an active market for the financial asset because of financial difficulties.

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

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Effective interest method

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

Other financial liabilities

The Group's financial liabilities are generally classified into other financial liabilities. Other financial liabilities including bank borrowings, trade and other payables are subsequently measured at amortised cost, using the effective interest method.

Derivative financial instruments

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

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. 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.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect 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). The fair value of the ordinary shares granted shall be measured at the market price of the shares, and the fair value of the share options granted shall be estimated by applying an option pricing model.

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

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 or cancelled 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.

When new ordinary shares are issued pursuant to the award scheme, the fair value of the ordinary shares granted that vest immediately or without lock-up period is recognised as an expense in full at the grant date with corresponding increase in equity (share compensation reserve). When the ordinary share awards are granted with lock-up period, which has same meaning as vesting period, the fair value of such amounts granted at the grant date is expensed on a straight-line basis over the lock-up period.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Impairment of property, plant and equipment

The impairment of certain property, plant and equipment used to provide manufacturing services to customers in connection with the production of handsets is based on the recoverable amount of those assets, which is the higher of fair value less costs to sell or value-in-use of those assets. Any changes in the market price or future cash flows will affect the recoverable amount of those assets and may lead to recognition of additional or reversal of impairment losses. An impairment loss of US$102,246,000 (2011: US$6,571,000), being the excess of the carrying amount over the recoverable amount of property, plant and equipment, was recognised in profit or loss in the current year. The carrying amount of the relevant property, plant and equipment as at 31 December 2012 is US$1,094,471,000 (2011: US$1,457,039,000) (see note 14).

Provision for warranty

Provision has been made for the costs to repair or replace defective goods, such as labour costs (whether incurred internal or external) and material costs, and costs that may not be recoverable from suppliers for the rework, in accordance with contractual terms or the Group's policy. In determining the amount of provisions, the management estimates the extent of repairs and replacements with reference to its past experience, technological needs and industrial averages for defective products. The estimation may be adversely affected by many factors, including additional variations to the manufacturing plans requested by the customers or because of technical needs, and unforeseen problems and circumstances. Any of these factors may affect the extent of repair or replacement required and therefore affect the ultimate repair and replacement costs to be incurred in the future periods. As at 31 December 2012, the provision is US$30,211,000 (2011: US$28,395,000).

Details of the movement on the provision are set out in note 33.

Income taxes

As at 31 December 2012, a deferred tax asset of US$5,962,000 (2011: US$6,000) in relation to unused tax losses of US$47,700,000 (2011: US$57,000) has been recognised in the Group's consolidated statement of financial position. No deferred tax asset has been recognised on the tax losses of US$927,020,000 (2011: US$781,553,000) due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future taxable profits or taxable temporary differences will be available in the future.

Deferred tax assets were also recognised for other deductible temporary differences on allowances for inventories, trade and other receivables, warranty provision, deferred income and other accrued expenses of approximately US$216,873,000 (2011: US$113,571,000).

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

Income taxes *(Continued)*

At 31 December 2012, the Group has not recognised deductible temporary differences on allowances for inventories, trade and other receivables, warranty provision, deferred income and other accrued expenses of approximately US$158,929,000 (2011: US$195,500,000) as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

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

5. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2012	2011
	US$'000	US$'000
Financial assets		
Loans and receivables	**3,312,840**	3,135,139
Available-for-sale financial assets	**85**	90
Financial liabilities		
Amortised cost	**1,214,861**	1,477,346
Fair value through profit or loss		
Derivatives	**1,374**	2,432

Financial risk management objectives and policies

The Group's major financial instruments include bank deposits and bank balances, available-for-sale investments, trade and other receivables, trade and other payables and bank borrowings. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

Market risk

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank loans (see note 26 for details of these borrowings). The directors monitor interest rate exposures and will consider hedging significant interest rate risk should the need arise. Cash flow interest rate risk in relation to variable-rate bank balances and deposits is considered insignificant as most of them are short-term in nature. Accordingly, no interest rate sensitivity analysis is prepared.

5. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Market risk (Continued)

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.

The Group manages its foreign currency exposures by non-financial techniques such as managing the transaction currency, leading and lagging payments, receivable management, etc. In addition, the Group sometimes obtains bank borrowings in various foreign currencies and enters into short-term 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 on a regular basis.

As at 31 December 2012, total notional amount of outstanding forward foreign exchange contracts that the Group has committed is approximately US$87,845,000 (2011: US$261,795,000), and their fair values are estimated to be approximately US$1,374,000 liabilities (2011: US$2,432,000 liabilities), and are included as other payable at the end of the reporting period. The contracts mainly related to buying of Euro and US$ (2011: Euro, US$ and RMB) with maturities in first quarter of the following year.

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

	2012	2011
	US$'000	US$'000
Assets		
US$	**1,010,683**	1,035,093
Liabilities		
US$	**(741,983)**	(1,094,953)

The Group's bank borrowings of approximately US$214,901,000 (2011: US$477,163,000) at the end of the reporting period are denominated in US$ other than the functional currency of respective group entities and are included in the monetary liabilities disclosed above.

5. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Market risk (Continued)

Exchange rate sensitivity

At the end of the reporting period, in respect of monetary items (excluding derivatives) denominated in currency other than the functional currency of respective group entities, if exchange rates of the functional currency against US$ had been appreciated/depreciated by 3% (2011: 3%) and all other variables were held constant, the Group's loss would decrease/increase by approximately US$9,314,000 (2011: the Group's profit would decrease/increase by approximately US$5,488,000) for the year. No sensitivity analysis is presented for derivatives as the amount is insignificant.

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 2012 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. A major portion of the Group's trade debts are receivable from industry leaders or multinational customers with good financial background. Meanwhile, in order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

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

The credit risk on liquid funds is limited because the counterparties are banks with higher credit ratings assigned by international credit-rating agencies and those global handset manufacturers which have long-term business relationship with the Group.

Liquidity risk

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

The Group's objective is to balance the fund's continuity and flexibility through the use of bank borrowings. The maturity periods of the Group's bank borrowings are from one to three months (2011: one to three months) and the maturity periods of other financial liabilities are within three months.

As at 31 December 2012, the Group has available unutilised banking facilities of approximately US$1,922,846,000 (2011: US$2,013,148,000).

5. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Fair value

Forward foreign exchange contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts.

The fair value of financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

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

Fair value measurements recognised in the consolidated statement of financial position

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

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

	Level 2 US$'000	**Total US$'000**
2012		
Financial liabilities at FVTPL		
Derivative financial instruments	1,374	1,374
2011		
Financial liabilities at FVTPL		
Derivative financial instruments	2,432	2,432

There were no transfers between Level 1 and 2 in the current year and prior years.

6. SEGMENT INFORMATION

The Group determines its operating segments based on internal reports reviewed by the chief operating decision maker, the Chief Executive Officer, for the purpose of allocating resources to the segment and to assess its performance.

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

Segment revenue and results

The Group's revenue is mainly arising from the manufacturing services to its customers in connection with the production of handsets.

The following is an analysis of the Group's revenue and results by operating and reportable segments.

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

Majority of the Group's sales to Asian customers is attributed to the People's Republic of China ("PRC").

6. SEGMENT INFORMATION *(Continued)*

Segment revenue and results *(Continued)*

Segment profit (loss) represents the gross profit (loss) earned/made by each segment and the service and subcontracting income (included in other income) after deducting all selling expenses and certain impairment recognised for property, plant and equipment. This is the measure reported to the Chief Executive Officer for the purposes of resource allocation and performance assessment.

Segment assets and liabilities

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

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

6. SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities *(Continued)*

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

Other information

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

	Year ended 31 December 2012				
	Asia US$'000	**Europe US$'000**	**America US$'000**	**Unallocated US$'000**	**Consolidated US$'000**
Capital additions	**–**	**45**	**3,441**	**39,277**	**42,763**
Depreciation and amortisation	**–**	**16,902**	**6,781**	**191,978**	**215,661**
(Gain) loss on disposal of property, plant and equipment	**–**	**(380)**	**2,674**	**16,834**	**19,128**
Reversal of allowance for doubtful debts, net	**(4,029)**	**(4)**	**(107)**	**–**	**(4,140)**
Provision for warranty	**1,651**	**727**	**4,634**	**–**	**7,012**
Impairment loss recognised for property, plant and equipment	**–**	**3,434**	**2,039**	**96,773**	**102,246**

	Year ended 31 December 2011				
	Asia US$'000	Europe US$'000	America US$'000	Unallocated US$'000	Consolidated US$'000
Capital additions	–	2,480	3,213	188,454	194,147
Depreciation and amortisation	–	5,161	10,626	231,519	247,306
(Gain) loss on disposal of property, plant and equipment	–	(2,762)	3,931	4,940	6,109
Allowance (reversal of allowance) for doubtful debts, net	3,979	(70)	(358)	–	3,551
Provision for warranty	2,784	652	3,383	–	6,819
Impairment loss recognised for property, plant and equipment	–	1,092	632	4,847	6,571

6. SEGMENT INFORMATION *(Continued)*

Geographical information

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

Information about the Group's revenue from external customers and its non-current assets is presented based on geographical location of operations.

	Revenue from external customers		Non-current assets	
	2012	2011	**2012**	2011
	US$'000	US$'000	**US$'000**	US$'000
PRC (country of domicile)	**4,141,799**	4,782,775	**1,029,544**	1,345,558
USA	**186,697**	548,916	**634**	850
Mexico	**186,938**	251,789	**21,127**	21,507
Other countries	**724,366**	770,937	**158,602**	217,170
	5,239,800	6,354,417	**1,209,907**	1,585,085

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

Information about major customers

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

	2012	2011
	US$'000	US$'000
Customer A[1]	**2,114,673**	1,486,350
Customer B[1]	**874,884**	1,437,605
Customer C[1]	**863,761**	1,168,888
Customer D[1]	**772,122**	1,501,029

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

7. OTHER INCOME, GAINS AND LOSSES

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

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

8. (LOSS) PROFIT BEFORE TAX

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

9. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

The emoluments paid or payable to each of the directors of the Company were as follows:

2012	Fees US$'000	Other emoluments: Basic salaries and allowances US$'000	Other emoluments: Performance-based or discretionary bonus US$'000 *(Note)*	Other emoluments: Retirement benefit scheme contributions US$'000	Total 2012 US$'000
Chin Wai Leung, Samuel (resigned on 1 January 2013)	–	300	–	–	300
Chang Ban Ja, Jimmy (resigned on 31 May 2012)	–	–	–	–	–
Gou Hsiao Ling (resigned on 1 January 2012)	–	–	–	–	–
Lee Jin Ming	–	–	–	–	–
Lau Siu Ki	27	8	–	–	35
Daniel Joseph Mehan	27	–	–	–	27
Chen Fung Ming	27	–	–	–	27
Chih Yu Yang	–	122	275	–	397
Lee Jer Sheng	–	66	69	–	135
Tong Wen-hsin (appointed on 26 July 2012)	–	81	32	–	113
Cheng Tien Chong (appointed on 1 January 2012 and resigned on 26 July 2012)	–	51	–	–	51
	81	628	376	–	1,085

9. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS *(Continued)*

2011	Fees US$'000	Other emoluments: Basic salaries and allowances US$'000	Other emoluments: Performance-based or discretionary bonus US$'000 *(Note)*	Other emoluments: Retirement benefit scheme contributions US$'000	Total 2011 US$'000
Chin Wai Leung, Samuel	–	300	2,049	–	2,349
Chang Ban Ja, Jimmy	–	–	–	–	–
Gou Hsiao Ling (resigned on 1 January 2012)	–	–	–	–	–
Lee Jin Ming	–	–	–	–	–
Lau Siu Ki	27	8	–	–	35
Daniel Joseph Mehan	27	–	–	–	27
Chen Fung Ming	27	–	–	–	27
Chih Yu Yang	–	123	718	–	841
Lee Jer Sheng	–	66	396	–	462
	81	497	3,163	–	3,741

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

For the period from 26 July 2012 to 31 December 2012, Mr. Chih Yu Yang, while for the period from 1 January 2012 to 26 July 2012, Mr. Cheng Tien Chong were also the Chief Executive of the Company and their emoluments disclosed above include those for services rendered by them as the Chief Executive.

For the year ended 31 December 2011, Mr. Chin Wai Leung, Samuel was the Chief Executive of the Company and his emoluments disclosed above include those for services rendered by him as the Chief Executive. He relinquished his position as the Chief Executive with effect from 1 January 2012, and retired from his position as a director and the Chairman of the Company with effect from 1 January 2013.

Neither the chief executive nor any of the directors waived any emoluments and were paid as compensation for loss of office and as incentive for join or upon joining the Group during the years ended 31 December 2012 and 2011.

10. EMPLOYEES' EMOLUMENTS

The aggregate emoluments of the five highest paid individuals included two (2011: three) executive directors of the Company, whose emoluments are included in note 9 above. The emoluments of the remaining three individuals (2011: two) were as follows:

	2012 US$'000	2011 US$'000
Salaries and other benefits	**176**	125
Performance-related incentive payments	**771**	724
	947	849

Their emoluments were within the following bands:

	Number of employees 2012	2011
HK$2,000,001 to HK$2,500,000	**2**	–
HK$2,500,001 to HK$3,000,000	**1**	–
HK$3,000,001 to HK$3,500,000	**–**	1
HK$3,500,001 to HK$4,000,000	**–**	1
	3	2

11. INCOME TAX EXPENSE

	2012 US$'000	2011 US$'000
Current tax	**22,598**	37,437
(Over)underprovision in prior years	**(17,229)**	2,340
	5,369	39,777
Deferred tax *(note 21)*		
– Current year	**(19,735)**	14,904
– Change in tax rates	**(3)**	188
	(19,738)	15,092
	(14,369)	54,869

11. INCOME TAX EXPENSE *(Continued)*

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

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

One of the Company's subsidiaries, Foxconn Precision Component (Beijing) Co., Ltd. ("Foxconn Beijing") was awarded the Advanced-Technology Enterprise Certificate (the "Certificate") and entitled for a tax reduction from 25% to 15% for three years commencing from 1 January 2009 and can apply for renewal of the Certificate in every three years. During the year ended 31 December 2012, Foxconn Beijing successfully re-applied the concessionary tax rates from the financial years of 2008 to 2012 according to the circular on the Implementation of Transitional Preferential Policies for Enterprise Income Tax by Guo Fa [2007] No. 39. Foxconn Beijing received a tax notification (税覆調字[2012] 01號) from the State Administration of Taxation which approved Foxconn Beijing to use the concessionary tax rates of 18% for 2008, 20% for 2009, 22% for 2010, 24% for 2011 and 25% for 2012 and resume applying the Certificate's tax rate of 15% for 2013 and 2014. Foxconn Beijing was then refunded during the current year the difference of US$14,741,000 for tax previously paid at the revised tax amount calculated on the basis of the concessionary tax rates and such amount was credited to profit or loss in the current year.

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

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

11. INCOME TAX EXPENSE *(Continued)*

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

	2012 US$'000	2011 US$'000
(Loss) profit before tax	(330,436)	130,001
Tax at the PRC income tax rate of 25% (2011: 24%) for the year *(note a)*	(82,609)	31,200
Effect of different tax rates of subsidiaries	335	(4,290)
Effect of income taxed at concessionary tax rates	17,476	(17,142)
Tax effect of expenses not deductible for tax purpose	32,728	38,150
Tax effect of income not taxable for tax purpose	(4,423)	(12,950)
Tax effect of tax losses/deductible temporary differences not recognised	39,535	18,260
Tax effect of income tax charges to PRC subsidiaries on disposal of certain qualified equipment *(note b)*	16	292
Tax effect of share of profit of associates	(307)	(1,179)
Tax effect of share of loss of a jointly controlled entity	112	–
Tax effect of a change in tax rates	(3)	188
(Over)underprovision in prior years	(17,229)	2,340
Income tax (credit) expense for the year	(14,369)	54,869

Notes:

(a) The domestic income tax rate of 25% (2011: 24%) represents the PRC Enterprise Income Tax rate on which the Group's operations are substantially based.

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

12. DIVIDEND

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

13. (LOSS) EARNINGS PER SHARE

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

	2012 **US$'000**	2011 US$'000
(Loss) earnings attributable to the owners of the Company		
(Loss) earnings for the purposes of basic and diluted (loss) earnings per share	**(316,423)**	72,844

	2012	2011
Number of shares		
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	**7,300,984,884**	7,204,771,998
Effect of dilutive potential ordinary shares relating to outstanding share options and share awards issued by the Company	**–**	39,886,933
Weighted average number of ordinary shares for the purpose of diluted (loss) earnings per share	**7,300,984,884**	7,244,658,931

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

14. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings US$'000	Plant and machinery US$'000	Fixtures and equipment US$'000	Construction in progress US$'000	Total US$'000
COST					
At 1 January 2011	920,971	1,518,842	156,010	58,609	2,654,432
Exchange adjustments	9,033	42,222	(151)	1,617	52,721
Additions	3,056	151,347	3,826	35,918	194,147
Disposals	(4,235)	(188,657)	(9,409)	–	(202,301)
Disposals of subsidiaries	(172,628)	(57,988)	(901)	(14,666)	(246,183)
Transfers	25,310	23,316	3	(48,629)	–
Transfer to investment properties	(290)	–	–	–	(290)
At 31 December 2011	781,217	1,489,082	149,378	32,849	2,452,526
Exchange adjustments	3,804	3,752	932	(78)	8,410
Additions	1,867	36,002	1,135	3,759	42,763
Disposals	(16,897)	(455,991)	(28,218)	–	(501,106)
Loss of control over a subsidiary	–	(2,202)	(57)	–	(2,259)
Transfers	11,019	6,000	1	(17,020)	–
At 31 December 2012	781,010	1,076,643	123,171	19,510	2,000,334
DEPRECIATION AND IMPAIRMENT					
At 1 January 2011	143,562	688,580	99,458	–	931,600
Exchange adjustments	(1,919)	16,831	(551)	–	14,361
Charge for the year	43,401	189,062	11,976	–	244,439
Eliminated on disposals	(3,579)	(148,765)	(8,508)	–	(160,852)
Disposals of subsidiaries	(26,339)	(13,691)	(602)	–	(40,632)
Transfers	(1,623)	1,623	–	–	–
Impairment loss recognised in profit or loss	3,489	2,971	111	–	6,571
At 31 December 2011	156,992	736,611	101,884	–	995,487
Exchange adjustments	1,927	3,875	850	–	6,652
Charge for the year	44,308	159,993	10,250	–	214,551
Eliminated on disposals	(5,724)	(382,423)	(24,699)	–	(412,846)
Loss of control over a subsidiary	–	(215)	(12)	–	(227)
Transfers	–	3	(3)	–	–
Impairment loss recognised in profit or loss	3,020	99,121	105	–	102,246
At 31 December 2012	200,523	616,965	88,375	–	905,863
CARRYING VALUES					
At 31 December 2012	580,487	459,678	34,796	19,510	1,094,471
At 31 December 2011	624,225	752,471	47,494	32,849	1,457,039

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

Included in the land and buildings are freehold land, located in Hungary, Brasil, Mexico and India (2011: Hungary, Brasil, Mexico, India and Taiwan), having an aggregate cost of approximately US$13,386,000 (2011: US$22,585,000). All buildings are situated outside Hong Kong.

Certain property, plant and equipment are pledged to secure banking facilities granted to the Group at the end of the reporting period (see note 40).

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

Freehold land	Nil
Buildings	Shorter of 20–40 years and the lease term
Plant and machinery	5–10 years
Fixtures and equipment	3–5 years

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

15. INVESTMENT PROPERTIES

	US$'000
COST	
At 1 January 2011	34,948
Exchange adjustments	1,612
Transferred to property, plant and equipment	290
Eliminated upon disposal of a subsidiary *(note 31)*	(36,850)
At 31 December 2011 and 2012	–
DEPRECIATION AND IMPAIRMENT	
At 1 January 2011	4,498
Exchange adjustments	430
Provided for the year	1,074
Eliminated upon disposal of a subsidiary *(note 31)*	(6,002)
At 31 December 2011 and 2012	–
CARRYING VALUES	
At 31 December 2012	–
At 31 December 2011	–

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

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

16. PREPAID LEASE PAYMENTS

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

	2012 US$'000	2011 US$'000
Long leases	**43,904**	46,680
Medium-term leases	**5,474**	5,165
	49,378	51,845

17. DEPOSIT FOR ACQUISITION OF PREPAID LEASE PAYMENTS

During the year ended 31 December 2010, the Group disposed of certain prepaid lease payments amounted to RMB190,699,000 (equivalent to approximately US$30,340,000 and US$30,264,000 as at 31 December 2012 and 2011 respectively) in exchange for other land use rights in the PRC. A receivable of the equivalent amount had been recorded as deposit paid for acquisition of prepaid lease payments as at 31 December 2012 and 2011.

18. AVAILABLE-FOR-SALE INVESTMENTS

	2012 **US$'000**	2011 US$'000
Unlisted overseas equity investment *(note)*	**85**	90

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

19. INTERESTS IN ASSOCIATES

	2012 **US$'000**	2011 US$'000
Cost of investments in associates, less impairment		
Listed in Taiwan	**19,572**	30,108
Unlisted	**6,935**	6,935
Share of post-acquisition profits and other comprehensive income, net of dividend received	**5,433**	8,438
	31,940	45,481
Fair value of listed investments	**34,271**	57,764

On 27 February 2008, the Group subscribed for 74,999 new ordinary shares in Diabell Co., Ltd. ("Diabell"), a private limited company established in the Republic of Korea ("Korea"), at a cash consideration equivalent to approximately US$12,849,000 in aggregate. Diabell is principally engaged in the business of designing, developing, manufacturing and selling hinges and window lens for handsets as well as connectors, switches, metal decoration, vibration motors and related products. The Group held 19.998% equity interest in Diabell as at 31 December 2011 and 2012, and in the opinion of the directors, the Group is able to exercise significant influence over Diabell because it has the power to appoint one out of five directors of that company. As at 31 December 2011 and 2012, an accumulated impairment loss of US$5,914,000 was recognised based on the Group's estimation of its share of the present value of the estimated future cash flows expected to be generated by Diabell.

19. INTERESTS IN ASSOCIATES *(Continued)*

On 5 March 2008, the Group entered into another agreement to subscribe for 14,893,000 new ordinary shares in Ways Technical Corp., Ltd. ("Ways Technical"), a limited company established in Taiwan and its shares are traded on the Taiwan OTC Market, at a total consideration of approximately US$34,614,000. Ways Technical is principally engaged in the business of providing special coating surface treatment services to branded handheld devices (such as handsets and GPS) manufacturers or Original Designing & Manufacturing companies.

During the current year, the Group disposed of certain interests in Ways Technical in the market for a total cash proceed of US$16,822,000 (2011: US$9,929,000). Accordingly, the Group's interests in Ways Technical decreased from 20.06% to 13.04% (2011: 24.18% to 20.06%) and gain on partial disposal of an associate of US$4,098,000 (2011: US$4,609,000) was recognised in profit or loss and included in other income during the year ended 31 December 2012. In the opinion of the directors, the Group is able to exercise significant influence over Ways Technical because it has the right to appoint two out of six directors of Ways Technical.

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

	2012 **US$'000**	2011 US$'000
Total assets	**236,826**	212,909
Total liabilities	**(78,828)**	(54,148)
Net assets	**157,998**	158,761
Group's share of net assets of associates	**23,060**	31,821
Total revenue	**96,055**	108,222
Total profit for the year	**14,531**	27,140
Total other comprehensive expense	**(1,506)**	(3,977)
Group's share of profits and other comprehensive income of associates for the year	**1,871**	4,769

19. INTERESTS IN ASSOCIATES *(Continued)*

As at 31 December 2012 and 2011, included in the cost of investments in associates is goodwill of US$8,880,000 (2011: US$13,660,000) arising on the acquisition of associates. The movement of goodwill is set out as below:

	2012 US$'000	2011 US$'000
COST		
At 1 January	19,574	21,618
Eliminated upon partial disposal of an associate	(4,780)	(2,044)
At 31 December	14,794	19,574
IMPAIRMENT		
At 1 January and 31 December	5,914	5,914
CARRYING VALUE		
At 31 December	8,880	13,660

20. INTEREST IN A JOINTLY CONTROLLED ENTITY

	2012 US$'000	2011 US$'000
Cost of unlisted investment in a jointly controlled entity	4,205	–
Share of post-acquisition loss and other comprehensive income	(464)	–
	3,741	–

At 31 December 2012, the Group had interests in the following jointly controlled entity (see note 30):

Name of jointly controlled entity	Form of entity	Place of incorporation	Principal place of operation	Class of shares held	Proportion of nominal value of issued capital held by the Group		Proportion of voting power held by the Group		Principal activity
					2012	2011	2012	2011	
位吉股份有限公司 (also known as Ways Transworld Inc.)	Limited company	Taiwan	Taiwan	Ordinary	50%	–	50%	–	Designing and manufacturing plastic molds for handheld devices

21. DEFERRED TAXATION

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

	Allowances for inventories, trade and other receivables US$'000	Warranty provision US$'000	Accelerated tax depreciation US$'000	Tax losses US$'000	Deferred income US$'000	Others US$'000 *(Note)*	Total US$'000
At 1 January 2011	(5,126)	(2,261)	3,916	(4,376)	(8,634)	(8,828)	(25,309)
Charge (credit) to profit or loss for the year	3,997	739	(293)	4,363	436	5,662	14,904
Effect of change in tax rates	18	17	83	(62)	–	132	188
Exchange adjustments	(593)	(75)	(573)	69	(440)	(671)	(2,283)
Reclassified as held for sale *(note 24)*	–	–	(28)	–	–	–	(28)
At 31 December 2011	(1,704)	(1,580)	3,105	(6)	(8,638)	(3,705)	(12,528)
Charge (credit) to profit or loss for the year	(3,857)	283	(533)	(5,934)	126	(9,820)	(19,735)
Effect of change in tax rates	–	–	(1)	–	–	(2)	(3)
Exchange adjustments	184	(3)	(87)	(22)	(21)	178	229
At 31 December 2012	(5,377)	(1,300)	2,484	(5,962)	(8,533)	(13,349)	(32,037)

Note: Others mainly represent temporary difference arising from accrued expenses.

21. DEFERRED TAXATION *(Continued)*

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

	2012	2011
	US$'000	US$'000
Deferred tax assets	**(41,127)**	(21,326)
Deferred tax liabilities	**9,090**	8,798
	(32,037)	(12,528)

At 31 December 2012, the Group has not recognised deductible temporary differences on allowances for inventories, trade and other receivables, warranty provision, deferred income and other accrued expenses of approximately US$158,929,000 (2011: US$195,500,000) as it is not probable that taxable profit will be available against which the deductible temporary difference can be utilised.

At the end of the reporting period, the Group has unused tax losses of approximately US$974,720,000 (2011: US$781,610,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately US$47,700,000 (2011: US$57,000) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses of US$927,020,000 (2011: US$781,553,000) 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 2017.

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

Under the EIT Law, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. No deferred tax liability has been recognised in respect of temporary differences associated with undistributed earnings of subsidiaries of approximately US$748,213,000 (2011: US$922,366,000) as at the end of the reporting period 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.

22. INVENTORIES

	2012	2011
	US$'000	US$'000
Raw materials	**132,569**	232,069
Work-in-progress	**48,911**	64,193
Finished goods	**166,438**	312,092
	347,918	608,354

Inventories carried at net realisable value were as follows:

	2012	2011
	US$'000	US$'000
Raw materials	**47,186**	39,307
Work-in-progress	**19,318**	8,882
Finished goods	**13,494**	96,219
	79,998	144,408

23. TRADE AND OTHER RECEIVABLES

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

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

23. TRADE AND OTHER RECEIVABLES *(Continued)*

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

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

As at the end of the reporting period, 97% (2011: 99%) of the Group's trade receivables are neither past due nor impaired, and they are mainly receivables from certain global handset manufacturers that the Group considers have good credit standing. The Group seeks to maintain strict control over the creditability of customers and their respective outstanding receivables. Before accepting any new customer, the Group assesses the potential customers' credit quality and defines credit limits by customers. The creditability of customers is reviewed regularly.

As at 31 December 2012, trade receivables with the aggregate carrying amount of approximately US$24,300,000 (2011: US$16,398,000) 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:

	2012	2011
	US$'000	US$'000
91–180 days	**15,948**	8,247
181–360 days	**4,793**	3,772
Over 360 days	**3,559**	4,379
	24,300	16,398

23. TRADE AND OTHER RECEIVABLES *(Continued)*

Movement in the allowance for doubtful debts:

	2012	2011
	US$'000	US$'000
Balance at beginning of the year	**4,193**	519
Impairment losses recognised on receivables	**252**	4,318
Amounts recovered during the year	**(4,392)**	(767)
Exchange adjustments	**(5)**	123
Balance at end of the year	**48**	4,193

24. ASSETS CLASSIFIED AS HELD FOR SALE

On 8 July 2011, Shenzhen Futaihong Precision Industrial Co., Ltd. ("FTH Precision"), a wholly-owned subsidiary of the Company, and Hong Fu Jin Precision Industry (Shen Zhen) Co., Ltd. ("HFJ Precision"), a wholly-owned subsidiary of Hon Hai, the ultimate holding company of the Company, entered into an equity transfer agreement (the "Transfer") with an independent third party (the "Purchaser"), pursuant to which, among other things, FTH Precision and HFJ Precision have agreed to sell in a series and the Purchaser has agreed to purchase in a series the entire equity interest of 深圳市富泰宏光明房地產有限公司 (also known as Shenzhen Futaihong Guang Ming Property Co., Ltd.) (present name being 深圳市金城光明房地產有限公司) ("Guang Ming") for a total cash consideration of RMB878,750,000 (equivalent to approximately US$136,382,000), upon and subject to the terms and conditions set out in the said equity transfer agreement (details of which are stipulated in the Company's announcement dated 8 July 2011). FTH Precision and HFJ Precision held approximately 70.12% and 29.88% in the equity interests of Guang Ming, respectively, before the Transfer. Pursuant to the said equity transfer agreement, FTH Precision was entitled to receive RMB616,180,000 (equivalent to approximately US$95,631,000) in aggregate upon disposal of all the Group's interest in Guang Ming to the Purchaser by 31 December 2012.

Up to 31 December 2011, the Group disposed of 25% equity interest in Guang Ming to the Purchaser and received cash consideration of RMB219,687,000 (equivalent to approximately US$34,095,000) and deposit of RMB130,313,000 (equivalent to approximately US$20,224,000) for the subsequent disposal. The Group lost control upon disposal of 25% equity interest in Guang Ming from 70.12% to 45.12% but was still able to exercise significant influence over Guang Ming as at 31 December 2011.

At 31 December 2011, the remaining interest held in Guang Ming by the Group was 45.12%, which was regarded as an interest in an associate and was expected to be disposed of by 31 December 2012. Accordingly, the remaining interest in Guang Ming was reclassified as held for sale and was separately presented in the consolidated statement of financial position.

24. ASSETS CLASSIFIED AS HELD FOR SALE *(Continued)*

During the year ended 31 December 2012, the Group disposed of the remaining 45.12% equity interest in Guang Ming to the Purchaser with consideration of RMB396,493,000 (equivalent to approximately US$61,536,000). The consideration was settled by cash received during the current year of RMB366,180,000 (equivalent to approximately US$57,122,000) and a part of the deposit received in prior year of RMB30,313,000 (equivalent to approximately US$4,414,000). In addition, the remaining balance of the deposit of RMB100,000,000 (equivalent to approximately US$15,810,000) received in prior year was refunded to the Purchaser.

The net assets of Guang Ming at the date of disposal were as follows:

	27 July 2011 US$'000
Net assets disposed of:	
Prepaid lease payments	64,661
Property, plant and equipment	2,208
Other receivables	162
Bank balances and cash	28,034
Other payables	(67)
Deferred tax liability	(28)
Net assets disposed of	94,970
Non-controlling interests	(28,887)
Total consideration for the disposed interest	(34,096)
Fair value of retained interest classified as an associate	(61,534)
Cumulative exchange differences in respect of the net assets of the subsidiary reclassified from equity to profit or loss on loss of control of the subsidiary	(798)
Gain on disposal	30,345
Net cash inflow arising on disposal:	
Cash consideration	34,096
Less: bank balances and cash disposed of	(28,034)
	6,062

25. TRADE AND OTHER PAYABLES

	2012 US$'000	2011 US$'000
Trade payables	**870,617**	880,956
Accruals and other payables	**332,838**	314,254
Deposit received *(Note 24)*	**–**	20,224
	1,203,455	1,215,434

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

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

26. BANK BORROWINGS

	2012 US$'000	2011 US$'000
Bank loans	**214,901**	483,245
Analysis of bank borrowings by currency:		
US$	**214,901**	477,163
Euro	**–**	6,082
	214,901	483,245

The bank borrowings as at 31 December 2012 are unsecured, obtained with original maturity of one to three months (2011: one to three months) and carry interest at fixed interest rates ranging from 0.89% to 3.12% (2011: 1.25% to 4.37%) per annum. The weighted average effective interest rate on the bank borrowings is 1.03% per annum (2011: 2.39% per annum).

During the year ended 31 December 2012, the interest expense of US$11,442,000 (2011: US$11,530,000) represented the interest on bank borrowings wholly repayable within five years.

27. SHARE CAPITAL

	Number of shares	Amount US$'000
Ordinary shares of US$0.04 each, authorised:		
Balance at 1 January 2011, 31 December 2011 and 31 December 2012	20,000,000,000	800,000
Ordinary shares of US$0.04 each, issued and fully paid:		
Balance at 1 January 2011	7,164,065,229	286,563
Issue pursuant to a share scheme *(note 39(b))*	60,609,485	2,424
Balance at 31 December 2011	7,224,674,714	288,987
Exercise of share options *(note 39(a))*	29,548,295	1,182
Issue pursuant to a share scheme *(note 39(b))*	58,104,335	2,324
Balance at 31 December 2012	7,312,327,344	292,493

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

28. RESERVES

The Group's special reserve represents the difference between the paid-in capital of the subsidiaries acquired pursuant to the 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 relevant subsidiaries. This reserve can only be used to make up losses incurred or to increase capital.

29. DERIVATIVES

Currency derivatives

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

During the current year, a gain from the forward foreign exchange contracts of US$4,955,000 (2011: loss of US$7,810,000) was recognised in profit or loss and included in other gain (2011: other loss).

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

	2012 **US$**	2011 US$
Euro	**8,728,000**	32,353,000
US$	**68,750,000**	62,229,000
RMB	**–**	161,027,000

As at 31 December 2012, the fair value of the Group's currency derivatives is estimated to be approximately US$1,374,000 liabilities (2011: US$2,432,000 liabilities), based on the difference between the market forward rate at the end of the reporting period for the remaining duration of the outstanding contracts and their contracted forward rates and discounted using an appropriate discount rate to take into account the time value of money, and is included as other payables (2011: other payables) at the end of the reporting period. The contracts outstanding as at 31 December 2012 mainly related to buying of Euro and US$ (2011: Euro, US$ and RMB) with maturities in the first quarter of 2013 (2011: first quarter of 2012).

30. LOSS OF CONTROL OVER A SUBSIDIARY

During the current year, the Company entered into an agreement with Ways Technical that Ways Technical's wholly-owned subsidiary namely 精泉科技股份有限公司 ("Ways Subsidiary") shall subscribe for 12,100,000 shares in an indirectly wholly-owned subsidiary of the Company, namely 位吉股份有限公司 (also known as Ways Transworld Inc.) ("Ways Transworld"), for a consideration of NTD121,000,000 (equivalent to approximately US$4,138,000). Ways Transworld is principally engaged in the business of designing and manufacturing plastic molds for handheld devices, such as mobile phones and personal navigation devices. Upon completion of the transaction in May 2012, the Group lost its control on Ways Transworld but has joint control over Ways Transworld as all of the major strategic financial and operating decisions require unanimous consent of the Group and Ways Subsidiary. Accordingly, Ways Transworld was regarded as a jointly controlled entity of the Group after the transaction and is accounted for using the equity method (see note 20 for details).

30. LOSS OF CONTROL OVER A SUBSIDIARY *(Continued)*

The net assets of Ways Transworld derecognised at the date when control over Ways Transworld was lost were as follows:

	US$'000
Property, plant and equipment	2,032
Trade and other receivables	4,357
Amounts due from related parties	25
Inventories	943
Bank balances and cash	3,860
Trade and other payables	(1,168)
Amounts due to related parties	(5,777)
Net assets disposed of	4,272
Fair value of the interest in a jointly controlled entity	(4,205)
Cumulative exchange differences in respect of the net assets of the subsidiary reclassified from equity to profit or loss on loss of control of a subsidiary	(86)
Gain on loss of control over a subsidiary	(19)
Net cash outflow arising on deemed disposal:	
Bank balances and cash disposed of	(3,860)

The fair value of the Group's retained interests in Ways Transworld was determined by the directors of the Company, taking into account the cash consideration of US$4,138,000 injected by Ways Subsidiary.

31. DISPOSAL OF A SUBSIDIARY

On 15 August 2011, the Group disposed of its entire interest in a subsidiary, Foxconn Precision Electronics (Taiyuan) Co., Ltd. ("Foxconn Taiyuan") to Prime Rich Holdings Limited, which is a wholly-owned subsidiary of Hon Hai, the Company's ultimate holding company (collectively "the Purchasers"). The net assets of Foxconn Taiyuan at the date of disposal were as follows:

	US$'000
NET ASSETS DISPOSED OF:	
Property, plant and equipment	203,343
Investment properties	30,848
Prepaid lease payments	20,705
Trade and other receivables	38,108
Bank balances and cash	196,420
Trade and other payables	(18,979)
Provision	(18)
Deferred income	(15,906)
Inter-company debts	(394,632)
	59,889
Cumulative exchange differences in respect of the net assets of the subsidiary reclassified from equity to profit or loss on loss of control of the subsidiary	(35,186)
Gain on disposal	42,958
Total consideration	67,661
Satisfied by:	
Cash	67,661
Net cash inflow arising on disposal:	
Cash consideration	67,661
Repayment of inter-company debts by Purchasers	394,632
Bank balances and cash disposed of	(196,420)
	265,873

Pursuant to the disposal agreement, the Purchasers settled the amount due to the Group by Foxconn Taiyuan of US$394,632,000 at the date of disposal.

32. BANK DEPOSITS AND BANK BALANCES AND CASH

Bank deposits carry interest at prevailing market rate of 3.03% (2011: 3.75%) per annum on average, with original maturity of over three months.

Bank balances and cash comprise cash held by the Group and short term bank deposits with an original maturity of three months or less. The deposits carry interest at prevailing market rate of 1.95% (2011: 2.41%) per annum on average.

Analysis of bank deposits and bank balances and cash by currency:

	2012 **US$'000**	2011 US$'000
US$	**614,966**	441,156
RMB	**1,346,252**	1,169,317
New Taiwan Dollar	**154,150**	123,841
Euro	**8,537**	11,576
Others	**233,226**	176,252
	2,357,131	1,922,142

33. PROVISION

	2012 **US$'000**	2011 US$'000
At 1 January	**28,395**	28,340
Exchange adjustments	**514**	721
Provision for the year	**7,012**	6,819
Utilisation of provision	**(5,710)**	(7,467)
Eliminated on disposal of a subsidiary *(Note 31)*	**–**	(18)
At 31 December	**30,211**	28,395

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.

34. DEFERRED INCOME

	2012 US$'000	2011 US$'000
Government subsidies	**33,483**	35,182
Sale and leaseback transaction	**–**	650
	33,483	35,832

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

35. CAPITAL COMMITMENTS

	2012 US$'000	2011 US$'000
Commitments for the acquisition of property, plant and equipment contracted but not provided for	**27,171**	67,126

36. OPERATING LEASE ARRANGEMENTS

The Group as lessee

	2012 US$'000	2011 US$'000
Minimum lease payments under operating leases in respect of premises recognised for the year	**12,253**	14,814

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

	2012 US$'000	2011 US$'000
Within one year	**5,105**	5,403
In the second to fifth years inclusive	**8,280**	1,250
	13,385	6,653

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

37. 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:

	2012 US$'000	2011 US$'000
Hon Hai		
Sales of goods	**64**	963
Purchase of goods	**23,229**	19,371
Purchase of property, plant and equipment	**183**	2,436
Sales of property, plant and equipment	**2,127**	1,241
Subcontracting income	**16,593**	5,455
Consolidated services and subcontracting expense	**18,274**	6,312
General service income	**42**	–
General service expense	**161**	573
Subsidiaries of Hon Hai		
Sales of goods	**76,567**	72,547
Purchase of goods	**419,542**	235,215
Purchase of property, plant and equipment	**12,554**	51,742
Sales of property, plant and equipment	**44,749**	32,385
Lease income	**904**	435
Lease expense	**1,730**	3,368
Subcontracting income	**54,827**	37,536
Consolidated services and subcontracting expense	**18,304**	23,220
General service income	**906**	15
General service expense	**23,536**	26,072
Associates of Hon Hai		
Sales of goods	**4,214**	29,613
Purchase of goods	**162,876**	132,659
Purchase of property, plant and equipment	**1,825**	2,219
Sales of property, plant and equipment	**11,614**	5,251
Lease income	**16**	1,283
Lease expense	**53**	804
Subcontracting income	**1,070**	2,687
Consolidated services and subcontracting expense	**5,547**	1,826
General service income	**140**	5,278
General service expense	**986**	5,405

In addition to the above, the Group also disposed of a subsidiary to a wholly-owned subsidiary of Hon Hai in 2011 (see note 31).

37. RELATED PARTY TRANSACTIONS *(Continued)*

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

	2012 US$'000	2011 US$'000
Trade receivables:		
Hon Hai	**3,810**	830
Subsidiaries of Hon Hai	**90,663**	37,490
Associates of Hon Hai	**4,029**	4,051
	98,502	42,371
Other receivables:		
Hon Hai	**288**	183
Subsidiaries of Hon Hai	**579**	154
Associates of Hon Hai	**456**	6
	1,323	343
	99,825	42,714
Trade payables:		
Hon Hai	**15,565**	3,091
Subsidiaries of Hon Hai	**147,322**	152,957
Associates of Hon Hai	**65,499**	30,372
	228,386	186,420
Other payables:		
Hon Hai	**2,455**	1,533
Subsidiaries of Hon Hai	**1,298**	1,934
Associates of Hon Hai	**11**	125
	3,764	3,592
	232,150	190,012

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

37. 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:

	2012	2011
	US$'000	US$'000
Short-term benefits	**1,585**	1,040
Share-based payments	**1,146**	4,500
	2,731	5,540

38. 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 values of the defined benefit obligations were carried out at 31 December 2012 by Greatfine Wealth Management Consulting Inc. and Aon Hewitt Korea, respectively. The present values of the defined benefit obligations, the related current service cost and past service cost were measured using the projected unit credit method.

The principal actuarial assumptions used were as follows:

	2012	2011
Discount rate	**1.50%–3.49%**	1.75%–4.57%
Expected return on plan assets	**1.75%–3.49%**	1.75%–3.79%
Expected rate of salary increases	**3.00%–5.00%**	3.00%–5.00%
Future pension increases	**–**	–

The actuarial valuations showed that the market value of plan assets was US$4,178,000 (2011: US$3,965,000) and that the actuarial value of these assets represented 66% (2011: 73%) of the benefits that had accrued to members.

38. RETIREMENT BENEFITS PLANS *(Continued)*

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

	2012 US$'000	2011 US$'000
Current service cost	**304**	833
Interest cost	**126**	219
Expected return on plan assets	**(91)**	(175)
Net actuarial (gain) loss	**(58)**	403
	281	1,280

Of the charge for the year, US$281,000 (2011: US$1,280,000) has been included in administrative expenses.

The actual return on plan assets was US$79,000 (2011: US$108,000) for the year ended 31 December 2012.

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

	2012 US$'000	2011 US$'000
Present value of funded defined benefit obligations	**5,799**	5,453
Fair value of plan assets	**(4,178)**	(3,965)
Deficit	**1,621**	1,488
Net actuarial losses and gains not recognised	**(541)**	(200)
Past service cost not recognised	**64**	–
Net liability arising from defined benefit obligations (included in other payables)	**1,144**	1,288

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.

39. SHARE-BASED PAYMENT TRANSACTIONS

(a) Equity-settled share option scheme

On 12 January 2005, the Company adopted a share option scheme (the "Option Scheme") for the primary purpose of attracting skilled and experienced personnel and incentivising them to remain with the Group. Under the Option Scheme, the board of directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company. In addition, 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 2 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 exercisable 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 of 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. The maximum number of shares of the Company in respect of which options granted and to be granted to each eligible person under the Option Scheme of the Company in any 12-month period up to the date of the latest grant shall not exceed 1% of the total number of issued shares of the Company from time to time. The maximum number of shares issued and to be issued upon exercise of options granted and to be granted (including options exercised, cancelled and outstanding) to a substantial shareholder or an independent non-executive director, or their respective associates, in the 12-month period up to and including the date of such grant in aggregate over 0.10% of total number of issued shares of the Company from time to time and have an aggregate value exceeding HK$5,000,000, such further grant of options will be required to be approved by the shareholders of the Company in general meeting.

Options granted must be taken up within 30 days after the date of offer, upon payment of HK$1.00 per an offer. The Option Scheme does not contain any minimum period for which an option must be held before it can be exercised, though such minimum period may be specified by the board of directors of the Company at the time of grant. The exercise price is determined by the board of directors of the Company, and will not be less than the highest 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.

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

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

Details of specific categories of options are as follows:

Option	Date of grant	Number of options granted	Vesting period	Exercise price HK$	Exercisable period	Estimated fair value of the options granted on the grant date US$	Closing price immediately before the date of grant 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
2011	8 July 2011	256,159,719	Ranging from one to three years up to January 2014	3.62	From vesting date to 31 December 2014	27,600,000	3.62

The following table discloses movements of the Company's share options held by employees during the year ended 31 December 2012:

Option type	Outstanding at 1.1.2012	Granted during the year	Exercised during the year	Lapsed/ expired during the year	Cancelled during the year	Outstanding at 31.12.2012
2007A	2,400,000	–	–	(2,400,000)	–	–
2011	250,661,762	–	(29,548,295)	(14,738,833)	–	206,374,634
	253,061,762	–	(29,548,295)	(17,138,833)	–	206,374,634

39. 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 2011:

Option type	Outstanding at 1.1.2011	Granted during the year	Exercised during the year	Lapsed/ expired during the year	Cancelled during the year	Outstanding at 31.12.2011
2005	225,059,105	–	–	(224,607,529)	(451,576)	–
2007A	2,400,000	–	–	–	–	2,400,000
2011	–	256,159,719	–	(5,497,957)	–	250,661,762
	227,459,105	256,159,719	–	(230,105,486)	(451,576)	253,061,762

51,323,616 (2011: 1,600,000) share options are exercisable as at 31 December 2012.

In respect of the share options exercised during the year ended 31 December 2012, the weighted average share price at the date of exercise was US$0.70 (2011: US$1.23) (equivalent to HK$5.42 (2011: HK$9.59)).

The Group recognised total expense of US$8,300,000 (2011: US$13,773,000) for the year ended 31 December 2012 in relation to the share options granted by the Company.

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

	2005	2007A	2011
Share price on date of grant	US$0.76 (equivalent to HK$5.95)	US$2.50 (equivalent to HK$19.46)	US$0.47 (equivalent to HK$3.62)
Exercise price	US$0.76 (equivalent to HK$6.06)	US$2.65 (equivalent to HK$20.63)	US$0.47 (equivalent to HK$3.62)
Expected volatility	30%	36%	37%
Expected life	Vesting period plus 1.5 years	Vesting period plus 1.5 years	Vesting period plus 0.5 year to 1.48 years
Risk free rate	3.39%	3.92%	0.30% to 0.67%
Dividend yield	0%	0%	0%

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

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

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

Expected volatility for Option 2005 was determined by calculating the historical volatility of the Company's share price over the period from 3 February 2005 (date of listing) to grant date, and expected volatility for Option 2007A and Option 2011 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 behavioural considerations.

(b) Other share-based payment plan

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

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

Pursuant to the approval of the board of directors of the Company on 29 April 2011, the Company offered 3,302,725 ordinary shares to the employee of the Company pursuant to the Share Scheme. The shares were granted without lock-up period. No consideration was payable on the grant of the shares and the shares were subsequently purchased by trustee of the Share Scheme from the stock market in May 2011.

Pursuant to the approval of the board of directors of the Company on 8 July 2011, the Company offered 5,138,266 ordinary shares to certain employees pursuant to the Share Scheme. The shares were granted without lock-up period. No consideration was payable on the grant of the shares. 3,889,391 ordinary shares were subsequently issued on 18 July 2011 and 1,248,875 ordinary shares were purchased by trustee of the Share Scheme from the stock market in July 2011.

Pursuant to the approval of the board of directors of the Company on 18 October 2011, the Company offered 21,948,624 ordinary shares to certain employees pursuant to the Share Scheme. The shares were granted without lock-up period. No consideration was payable on the grant of the shares. 21,365,648 ordinary shares were subsequently issued on 27 October 2011 and 582,976 ordinary shares were purchased by trustee of the Share Scheme from the stock market in October 2011.

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

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

Pursuant to the approval of the board of directors of the Company on 29 December 2011, the Company offered 62,423,773 ordinary shares to certain employees pursuant to the Share Scheme, of which 48,484,394 ordinary shares were granted without lock-up periods, while the remaining shares were granted with lock-up periods ranging from one to two years from the grant date. No consideration was payable on the grant of the shares. 58,104,335 ordinary shares were subsequently issued on 5 January 2012 and 4,319,438 ordinary shares were purchased by trustee of the Share Scheme from the stock market in January 2012.

Pursuant to the approval of the board of directors of the Company on 28 December 2012, the Company offered 135,564,990 ordinary shares to certain employees pursuant to the Share Scheme, of which 120,630,224 ordinary shares were granted without lock-up periods, while the remaining shares were granted with lock-up periods ranging from one to two years from the grant date. No consideration was payable on the grant of the shares. 135,564,990 ordinary shares were subsequently issued on 4 January 2013.

The Group recognised total expense of US$65,818,000 (2011: US$48,826,000) for the year ended 31 December 2012 in relation to the ordinary shares awarded by the Company under the Share Scheme.

40. PLEDGE OF ASSETS

At the end of the reporting period, a subsidiary of the Company has pledged its plant and machinery having a carrying value of approximately US$264,000 (2011: US$1,682,000) to secure general banking facilities granted to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2012

41. PRINCIPAL SUBSIDIARIES

The Company has the following principal subsidiaries as at 31 December 2012 and 2011:

Name of subsidiary	Form of business structure	Place of incorporation or establishment/ operation	Issued and paid-up share capital/registered capital	Attributable equity interest held by the Company				Principal activities
				Directly		Indirectly		
				2012	2011	2012	2011	
Chi Mei Communication Systems, Inc.	Limited company	Taiwan	NT$1,500,000,000	–	–	85.788%	76.332%	Design and manufacture of handsets
Eliteday Enterprises Limited	Limited company	British Virgin Islands ("BVI")/ PRC	US$1	–	–	100%	100%	Trading of handsets
Extra Right Enterprises Limited	Limited company	BVI/PRC	US$1	–	–	100%	100%	Provision of services to group companies
FIH (Hong Kong) Limited	Limited company	Hong Kong/PRC	HK$155,146,001	–	–	100%	100%	Trading of handsets
FIH Co., Ltd.	Limited company	Taiwan	NT$1,000,000	100%	100%	–	–	Provision of services to group companies
Foxconn DK ApS (dissolved on 4 July 2012)	Limited company	Denmark	DKK2,100,000	–	–	–	100%	Research and development; project management
FIH Europe Limited Liability Company	Limited company	Hungary	HUF2,000,200,000	–	–	100%	100%	Manufacture of handsets
Foxconn Mexico Precision Industry, Co. SA de CV.	Limited company	Mexico	MXN2,007,283,685	–	–	100%	100%	Manufacture of handsets
Foxconn Oy	Limited company	Finland	EUR1,558,800	–	–	100%	100%	Manufacture of handsets
富士康精密組件(北京)有限公司 (Foxconn Precision Component (Beijing) Co., Ltd.)	Wholly foreign owned enterprise	PRC	US$68,800,000	–	–	100%	100%	Manufacture of handsets
宏訊電子工業(杭州)有限公司 (Honxun Electrical Industry (Hangzhou) Co., Ltd.)	Wholly foreign owned enterprise	PRC	US$126,800,000	–	–	100%	100%	Manufacture of handsets

41. PRINCIPAL SUBSIDIARIES *(Continued)*

Name of subsidiary	Form of business structure	Place of incorporation or establishment/ operation	Issued and paid-up share capital/registered capital	Attributable equity interest held by the Company				Principal activities
				Directly		Indirectly		
				2012	2011	**2012**	2011	
深圳富泰宏精密工業有限公司 (Shenzhen Futaihong Precision Industrial Co., Ltd.)	Wholly foreign owned enterprise	PRC	US$178,520,000	**–**	–	**100%**	100%	Manufacture of handsets
Success World Holdings Limited	Limited company	Hong Kong	HK$1,049,044,500	**100%**	100%	**–**	–	Investment holding
Sutech Industry Inc.	Limited company	USA	US$10,000	**–**	–	**100%**	100%	Provision of logistics services to group companies
富士康(天津)精密工業有限公司 (Foxconn (Tian Jin) Precision Industry Co., Ltd.)	Wholly foreign owned enterprise	PRC	US$52,800,000	**–**	–	**100%**	100%	Manufacture of handsets
Foxconn do Brasil Indústria e Comércio de Eletrônicos Ltda.	Limited company	Brasil	BRL550,532,590	**–**	–	**100%**	100%	Manufacture of handsets
Foxconn India Private Limited	Limited company	India	INR2,349,681,000	**–**	–	**100%**	100%	Manufacturing, import, export, distribution and assembly
富泰京精密電子(北京)有限公司 (Futaijing Precision Electronics (Beijing) Co., Ltd.)	Wholly foreign owned enterprise	PRC	US$75,000,000	**–**	–	**100%**	100%	Manufacture of handsets
富泰京精密電子(煙台)有限公司 (Futaijing Precision Electronics (Yantai) Co., Ltd.)	Wholly foreign owned enterprise	PRC	US$20,000,000	**–**	–	**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$295,500,000	**–**	–	**100%**	100%	Manufacture of handsets

41. PRINCIPAL SUBSIDIARIES *(Continued)*

Name of subsidiary	Form of business structure	Place of incorporation or establishment/ operation	Issued and paid-up share capital/registered capital	Attributable equity interest held by the Company				Principal activities
				Directly		Indirectly		
				2012	2011	2012	2011	
富士康(成都)通訊科技有限公司 (FIH (Chengdu) Communication Technology Co., Ltd.)	Wholly foreign owned enterprise	PRC	US$7,600,000	–	–	100%	100%	Research and development; sales
南寧富泰宏精密工業有限公司 (Nanning Futaihong Precision Industrial Co., Ltd.)	Sino-foreign jointly owned enterprise	PRC	US$50,000,000	–	–	100%	100%	Manufacture of handsets
Foxconn Reynosa S.A. De C.V.	Limited company	Mexico	MXN50,000	–	–	100%	100%	Manufacture of handsets
FIH Technology Korea Ltd.	Limited company	Korea	KRW1,100,000,000	–	–	100%	100%	Research and development; project management
KSB International Limited	Limited company	Korea	KRW50,000,000	–	–	100%	100%	Provision of logistics services to group companies; sales

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 or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2012 US$'000	2011 US$'000
ASSETS		
Investments in subsidiaries	**1,458,554**	1,438,654
Other receivables	**46**	46
Prepayments	**220**	132
Amounts due from subsidiaries	**1,508,580**	1,506,125
Bank balances and cash	**4,125**	4,830
	2,971,525	2,949,787
LIABILITIES		
Bank borrowings	**85,800**	256,300
Other payables	**1,565**	2,534
Amounts due to subsidiaries	**822,734**	710,376
	910,099	969,210
NET ASSETS	**2,061,426**	1,980,577
CAPITAL AND RESERVES		
Share capital	**292,493**	288,987
Share premium	**863,432**	813,391
Reserves	**905,501**	878,199
TOTAL EQUITY	**2,061,426**	1,980,577

Under the Companies Law (Revised) Chapter 25 of the Cayman Islands, the share premium of the Company is available for distribution or paying dividends to shareholders subject to the provisions of its memorandum or articles of association and provided that immediately following the distribution of dividends, the Company is able to pay its debts as they fall due in the ordinary course of business. At the end of the reporting period, the Company's reserve available for distribution amounted to approximately US$1,693,183,000 (2011: US$1,646,157,000), consisted of share premium of approximately US$863,432,000 (2011: US$813,391,000) and retained profits of approximately US$829,751,000 (2011: US$832,766,000).

42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Movement in reserves

	Share premium US$'000	Share compensation reserve US$'000	Retained profits US$'000	Total US$'000
Balance at 1 January 2011	776,191	84,704	599,164	1,460,059
Profit for the year	–	–	174,370	174,370
Issue of ordinary shares under Share Scheme	37,200	(39,624)	–	(2,424)
Payment made for equity-settled share-based payments	–	(3,014)	–	(3,014)
Recognition of equity-settled share-based payments	–	62,599	–	62,599
Transfer	–	(59,232)	59,232	–
Balance at 31 December 2011	813,391	45,433	832,766	1,691,590
Loss for the year	–	–	(4,364)	(4,364)
Issue of ordinary shares under Option Scheme and Share Scheme	50,041	(39,761)	–	10,280
Payment made for equity-settled share-based payments	–	(2,691)	–	(2,691)
Recognition of equity-settled share-based payments	–	74,118	–	74,118
Transfer	–	(1,349)	1,349	–
Balance at 31 December 2012	863,432	75,750	829,751	1,768,933

FINANCIAL SUMMARY

	For the year ended 31 December				
	2008 (US$'million)	2009 (US$'million)	2010 (US$'million)	2011 (US$'million)	**2012 (US$'million)**
Results					
Turnover	9,271.04	7,213.63	6,626.00	6,354.42	**5,239.80**
Profit (loss) from operations	229.21	73.55	(169.46)	68.23	**(318.99)**
Interest expenses	(31.81)	(4.51)	(6.67)	(11.53)	**(11.44)**
Gain on disposals of subsidiaries	–	2.40	–	73.30	**–**
Profit (loss) before tax	197.40	71.44	(176.13)	130.00	**(330.43)**
Income tax credit (expense)	(75.47)	(31.81)	(43.64)	(54.87)	**14.37**
Profit (loss) after tax and before non-controlling interests	121.93	39.63	(219.77)	75.13	**(316.06)**
Non-controlling interests	(0.82)	(1.04)	1.45	(2.29)	**(0.36)**
Net (loss) profit for the year	121.11	38.59	(218.32)	72.84	**(316.42)**

	As at 31 December				
	2008 (US$'million)	2009 (US$'million)	2010 (US$'million)	2011 (US$'million)	**2012 (US$'million)**
Assets and liabilities					
Total assets	5,527.74	5,635.11	6,017.35	5,611.62	**5,088.48**
Total liabilities	(2,072.23)	(2,027.64)	(2,424.32)	(1,852.93)	**(1,561.92)**
Non-controlling interests	(34.18)	(35.68)	(46.00)	(18.68)	**(10.76)**
Capital and reserves	3,421.33	3,571.79	3,547.03	3,740.01	**3,515.80**

CORPORATE GOVERNANCE REPORT

The Company has applied and complied with all the code provisions set out in the CCGP during the period from 1 January 2012 to 31 March 2012 and the CG Code during the period from 1 April 2012 to 31 December 2012.

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

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

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.

According to the Manual, the respective responsibilities, accountabilities and contributions of the Board and the Company's management have been divided through the adoption of a list of matters reserved for the Board (which has been reviewed by the Board annually to ensure that the list would remain appropriate to the needs of the Company), as opposed to other matters which could be delegated to the management from time to time. The list of matters reserved for the Board covers (among other things) the Group's strategy, objectives, business plans, budget and overall management; changes in capital structure or corporate structure; approval of interim and final results announcements, annual and interim reports and accounts, and significant changes in accounting policies; internal control and risk management systems; major investments; overall corporate governance arrangements; and approval of internal policies, codes and guidelines.

The Board has delegated its powers to the management for the daily management and operations of the Group. In addition, the Board has delegated its powers to the Board committees. On 22 March 2012, the Board established two committees, namely the nomination committee and the corporate governance committee, and adopted their respective terms of reference with reference to the relevant provisions under the CG Code. Subsequent to the formation of these two committees, the Board has four Board committees, namely the remuneration committee, the audit committee, the nomination committee and the corporate governance 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 or the CG Code (as the case may be).

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

Executive Directors

TONG Wen-hsin *(Executive Director with effect from 26 July 2012 and the Chairman of the Company with effect from 1 January 2013)*

CHIH Yu Yang *(Chief Executive Officer of the Company with effect from 26 July 2012 and the chairman of the corporate governance committee with effect from 26 July 2012)*

LEE Jer Sheng *(member of the corporate governance committee with effect from 22 March 2012)*

Non-executive Director

LEE Jin Ming *(member of the remuneration committee and the audit committee and (with effect from 22 March 2012) the nomination committee)*

Independent Non-executive Directors

LAU Siu Ki *(chairman of the remuneration committee and the audit committee and (with effect from 22 March 2012) the nomination committee)*

Daniel Joseph MEHAN *(member of the remuneration committee and the audit committee and (with effect from 22 March 2012) the nomination committee)*

CHEN Fung Ming

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

Name of director	**Number of Board meetings attended/held in 2012**
TONG Wen-hsin (appointed on 26 July 2012)	5/5
CHIN Wai Leung, Samuel (resigned on 1 January 2013)	7/8
CHENG Tien Chong (resigned on 26 July 2012)	4/4
CHIH Yu Yang	8/8
LEE Jer Sheng	8/8
CHANG Ban Ja, Jimmy (resigned on 31 May 2012)	2/2
LEE Jin Ming	7/8
LAU Siu Ki	7/8
Daniel Joseph MEHAN	8/8
CHEN Fung Ming	8/8
TONG Wen-hsin as proxy for CHIN Wai Leung, Samuel	1/8
LAU Siu Ki as proxy for LEE Jin Ming	1/8
Daniel Joseph MEHAN as proxy for LAU Siu Ki	1/8

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

CHAIRMAN

The Chairman is responsible for providing leadership to the Board and for ensuring that directors receive adequate information in a timely manner and are briefed on issues arising at the Board meetings. He should take the primary responsibility for ensuring that good corporate governance practices and procedures are established and appropriate steps are taken to provide effective shareholders' communication with the Board. In addition, he should encourage directors with different views to voice their concerns and facilitate effective contributions of the non-executive directors. During the year, the Chairman held a meeting with the non-executive directors (including independent non-executive directors) without the presence of the executive directors.

APPOINTMENT, RE-ELECTION AND RETIREMENT 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 24 July 2010, 1 December 2010 and 1 November 2011 respectively subject to re-election at each annual general meeting of the Company in accordance with article 112 of the Articles. All the directors of the Company are subject to retirement by rotation at least once every three years in accordance with article 112.

DIRECTORS' AND COMPANY SECRETARY'S CONTINUOUS PROFESSIONAL DEVELOPMENT

Prior to appointment, every intending director of the Company is provided with a briefing and training provided by the Company's professional legal advisers to ensure that he/she is fully aware of the responsibilities as a director of a Hong Kong-listed company under the Listing Rules and other applicable legal and regulatory requirements. Such briefings and training are provided at the Company's expenses.

The Company from time to time provides briefings, training sessions and materials to the directors to develop and refresh their knowledge and skills, including updates on the latest developments regarding the Listing Rules and other applicable legal and regulatory requirements to enhance their awareness of the same.

During the year, all directors had participated in appropriate continuous professional development activities through attending briefings and/or training sessions and/or reading materials relating to the Group's business operations, general economy and business, manufacturing or technology industry, directors' duties and responsibilities, applicable legal and regulatory requirements, etc.

Name of director	Type(s) of continuous professional development activities
TONG Wen-hsin (appointed on 26 July 2012)	A, B
CHIN Wai Leung, Samuel (resigned on 1 January 2013)	A, B
CHENG Tien Chong (resigned on 26 July 2012)	B
CHIH Yu Yang	A, B
LEE Jer Sheng	A, B
CHANG Ban Ja, Jimmy (resigned on 31 May 2012)	B
LEE Jin Ming	A, B
LAU Siu Ki	A, B
Daniel Joseph MEHAN	A, B
CHEN Fung Ming	A, B

A: Attending briefings and/or training sessions.
B: Reading articles, journals, newspapers and/or other materials.

The company secretary had taken not less than 15 hours of relevant professional training during the year.

REMUNERATION COMMITTEE

The Company established a remuneration committee with written terms of reference by reference to the code provisions of the CCGP. On 22 March 2012, the terms of reference for the remuneration committee were superseded in their entirety by the revised terms of reference based on the CG Code. The revised terms of reference for the remuneration committee are accessible on the websites of the Stock Exchange and the Company respectively.

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

LAU Siu Ki *(chairman)*
LEE Jin Ming
Daniel Joseph MEHAN

The principal duties of the remuneration committee are to make recommendations to the Board on the policy and structure for the remuneration of the directors and senior management, to consider and review the remuneration of the directors and senior management by reference to corporate goals and objectives, and to make recommendations to the Board on the remuneration packages of the directors and senior management.

The remuneration committee shall meet at least once a year if necessary. During the year, two remuneration committee meetings were held, in particular, to review the remuneration of the directors including the appointment of a new executive director and the terms of his letter of appointment, the renewal of the terms of appointment of two directors and the grant of shares under the Share Scheme and make recommendations to the Board on the directors' remuneration and the grant of shares. The attendance of each member of the remuneration committee is shown below:

Name of committee member	Number of remuneration committee meetings attended/held in 2012
LAU Siu Ki	2/2
LEE Jin Ming	2/2
Daniel Joseph MEHAN	2/2

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

AUDIT COMMITTEE

The Company established an audit committee with written terms of reference by reference to the code provisions of the CCGP. On 22 March 2012, the terms of reference for the audit committee were superseded in their entirety by the revised terms of reference based on the CG Code. The revised terms of reference for the audit committee are accessible on the websites of the Stock Exchange and the Company respectively.

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

LAU Siu Ki *(chairman)*
LEE Jin Ming
Daniel Joseph MEHAN

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

The audit committee shall meet at least twice a year. Also, at least once a year the audit committee shall meet with the external auditors without any members of management of the Company present. During the year, the audit committee held a meeting with the external auditors without the presence of any members of management of the Company. Moreover, three audit committee meetings were held, in particular, to review the unaudited interim financial statements and report and the audited full-year financial statements and report together with the related management representation letters, to review and approve the external auditors' engagement letters, to review and approve the internal audit plan of the Group as well as to make recommendations to the Board on the relevant matters. The attendance of each member of the audit committee is shown below:

Name of committee member	**Number of audit committee meetings attended/held in 2012**
LAU Siu Ki	3/3
LEE Jin Ming	3/3
Daniel Joseph MEHAN	3/3

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

NOMINATION COMMITTEE

On 22 March 2012, the Company established a nomination committee with written terms of reference together with the nomination procedures and process and criteria to select and recommend candidates for directorship by reference to the code provisions of the CG Code. The terms of reference for the nomination committee are accessible on the websites of the Stock Exchange and the Company respectively.

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

LAU Siu Ki *(chairman)* (appointed on 22 March 2012)
LEE Jin Ming (appointed on 22 March 2012)
Daniel Joseph MEHAN (appointed on 22 March 2012)

The principal duties of the nomination committee are to review the structure, size and composition of the Board annually and make recommendations on any proposed changes. It also makes recommendations to the Board on the appointment or re-appointment of the directors and succession planning for the directors, in particular the Chairman of the Board and the chief executive officer of the Company. In addition, it assesses the independence of the independent non-executive directors. It also identifies individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships in accordance with the nomination procedures and process and criteria to select and recommend candidates for directorship.

The nomination committee shall meet at least once a year if necessary. During the year, two nomination committee meetings were held, in particular, to consider the appointment of a new executive director, the new Chairman, the new chief executive officer of the Company and an advisor to the Chairman as a matter of succession planning, to consider the re-appointment of two directors, to review the structure, size and composition of the Board as well as to make recommendations to the Board on the relevant matters. The attendance of each member of the nomination committee is shown below:

Name of committee member	**Number of nomination committee meetings attended/held in 2012**
LAU Siu Ki	2/2
LEE Jin Ming	2/2
Daniel Joseph MEHAN	2/2

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

CORPORATE GOVERNANCE COMMITTEE

On 22 March 2012, the Company established a corporate governance committee with written terms of reference by reference to the code provisions of the CG Code.

The corporate governance committee consists of two executive directors. The members are:

CHENG Tien Chong *(chairman)* (appointed on 22 March 2012 and resigned on 26 July 2012)
CHIH Yu Yang *(chairman)* (appointed on 26 July 2012)
LEE Jer Sheng (appointed on 22 March 2012)

The principal duties of the corporate governance committee are to develop and review the Company's policies and practices on corporate governance and to make recommendations to the Board. It also reviews and monitors the training and continuous professional development of the directors and senior management. In addition, it reviews and monitors the Company's policies and practices on compliance with legal and regulatory requirements. Moreover, it develops, reviews and monitors the code of conduct and compliance manual applicable to employees and the directors, and to review the Company's compliance with the CG Code.

The corporate governance committee shall meet at least once a year if necessary. During the year, a corporate governance committee meeting was held to review and recommend to the Board the revised list of matters reserved for the Board and the existing shareholders communication policy as well as to consider and recommend to the Board the delegation of authority of the Board regarding the relevant matters to the Chairman and any other executive director jointly. The attendance of each member of the corporate governance committee is shown below:

Name of committee member	**Number of corporate governance committee meeting attended/held in 2012**
CHIH Yu Yang	1/1
LEE Jer Sheng	1/1

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

INDEPENDENT BOARD COMMITTEE

During the year, pursuant to the resolution duly passed at the Board meeting held on 26 July 2012, an independent Board committee comprising the independent non-executive directors of the Company was established in connection with the proposed annual caps applicable to the Sub-contracting Income Transaction as more particularly described in "Report of the Directors" above. The attendance of each member of the independent Board committee is shown below:

Name of committee member	Number of independent Board committee meeting attended/held in 2012
LAU Siu Ki	1/1
Daniel Joseph MEHAN	1/1
CHEN Fung Ming	1/1

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 auditor's remuneration incurred by the Company was US$834,000, and US$1,166,000 was paid to the Company's auditor, Deloitte Touche Tohmatsu for audit services and US$80,000 for non-audit services. The Company considers the non-audit services to be insignificant and has therefore not provided itemised details regarding the nature of each non-audit service and the fee paid therefor.

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 for 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 2012, 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.

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

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

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

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules. Following specific enquiry made by the Company, all the directors of the Company have confirmed that they have complied with the required standards set out in the Model Code in respect of the Company's securities throughout the year ended 31 December 2012.

SHAREHOLDER RELATIONS

During the year, the Company has formulated the shareholders communication policy setting out the framework that the Company has put in place to maintain and promote effective communication and ongoing dialogue with its shareholders so as to enable them to engage actively with the Company through different means of communication and exercise their rights in the capacity as shareholders in an informed manner. To this end, the Company strives to ensure that all its shareholders have ready and timely access to all publicly available information relating to the Company.

The shareholders communication policy provides for (among other things) the procedures by which enquiries may be put forward to the Company as follows:

- The Company's shareholders may at any time send enquiries (including enquiries to the Board) and requests for publicly available information and provide comments and suggestions to the Company. Such enquiries, requests, comments and suggestions can be sent through "Contact FIH" at the Company's website (www.fih-foxconn.com) or to the company secretary at the following address:

  The Company Secretary of Foxconn International Holdings Limited
  c/o Shenzhen Futaihong Precision Industrial Co., Ltd.
  Mailbox 201
  No.2, 2nd Donghuan Road
  10th Yousong Industrial District
  Longhua Town, Baoan
  Shenzhen City
  Guangdong Province
  518109
  People's Republic of China

- For enquiries about their shareholdings in the Company, the shareholders can direct the same to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong or by email to hkinfo@computershare.com.hk, who has been appointed by the Company to handle the shareholders' share registration and related matters.

- For the verification of his/her capacity as a shareholder, the shareholder making the enquiry, request, comment or suggestion shall forthwith upon the Company's request provide: (a) his/her name, address and other contact details; (b) the number of the Company's shares held by him/her; (c) his/her written consent to the use, transfer and/or processing of his/her personal data and other information provided to the Company for the purpose of verifying his/her capacity as a shareholder; and (d) such additional information as the Company may reasonably require for the purposes of such verification. The verification process will be conducted by the Company, in consultation with the Company's Hong Kong branch share registrar and other third parties if necessary, to the satisfaction of the Company. The Company will proceed to handle the relevant enquiry, request, comment or suggestion following a successful verification to its satisfaction.

- Following a successful verification of the shareholder's capacity, the company secretary or the handling officer of the Company's investor relations department (as the case may be) will review the relevant enquiry, request, comment or suggestion and (as appropriate) forward the same: (a) to the Board (in case of the handling officer of the Company's investor relations department, through the company secretary) if the same falls within the Board's purview; (b) to the members of the relevant Board committee (in case of the handling officer of the Company's investor relations department, through the company secretary) if the same falls within such Board committee's area of responsibility; and (c) to the appropriate senior management team members (or their corresponding delegates) if the same relates to ordinary business matters.

The shareholders communication policy also provides (among other things) that the annual general meetings and other general meetings of the Company are the primary forum for communication with the shareholders and for the shareholders' exchange of views and participation in discussions with the Board.

During the year, an annual general meeting (the "2012 AGM") and an extraordinary general meeting (the "2012 EGM") of the Company were held on 31 May 2012 and 13 September 2012 respectively. The attendance of each director is shown below *(Note)*:

Name of director	**Number of general meetings attended/held in 2012**
TONG Wen-hsin (appointed on 26 July 2012)	1/1
CHIN Wai Leung, Samuel (resigned on 1 January 2013)	2/2
CHENG Tien Chong (resigned on 26 July 2012)	1/1
CHIH Yu Yang	2/2
LEE Jer Sheng	2/2
CHANG Ban Ja, Jimmy (resigned on 31 May 2012)	1/1
LEE Jin Ming	2/2
LAU Siu Ki	2/2
Daniel Joseph MEHAN	2/2
CHEN Fung Ming	2/2

Note: The directors participated in the 2012 AGM and the 2012 EGM by means of telephone conference facility, except that Messrs. CHIN Wai Leung, Samuel, CHENG Tien Chong and LAU Siu Ki attended the 2012 AGM in person, and Messrs. TONG Wei-hsin and LAU Siu Ki attended the 2012 EGM in person.

At the 2012 AGM, the Company obtained its shareholders' approval of the agenda items set forth in the 2012 AGM notice attached to the Company's circular dated 13 April 2012. In particular, the shareholders duly passed special resolutions to approve certain amendments to the Articles and the adoption of the new amended and restated memorandum and articles of association of the Company (in place of the then existing memorandum and articles of association in their entirety) by consolidating the previous amendments made to the Articles pursuant to the resolutions passed by the shareholders at general meetings and the amendments to the Articles set out in the 2012 AGM notice attached to the Company's circular dated 13 April 2012, so as to bring the constitution of the Company in line with the relevant amendments made to the Listing Rules and also serve housekeeping purposes. The new amended and restated memorandum and articles of association of the Company are accessible on the websites of the Stock Exchange and the Company respectively.

SHAREHOLDERS' RIGHTS

Shareholders' Right to convene Extraordinary General Meeting

During the year, the Company formulated the memorandum on shareholder rights setting out (among other things) its shareholders' right to convene the Company's extraordinary general meeting ("EGM") as follows:

- Pursuant to article 68 of the Articles, the relevant shareholder(s) of the Company is/are entitled to convene an EGM in the following manner:

  (a) Upon the written requisition of any two or more shareholders deposited at the principal place of business of the Company in Hong Kong specifying the objects of the EGM and signed by the requisitionists, provided that such requisitionists held as at the date of deposit of the requisition not less than one-tenth of the paid-up capital of the Company which carries the right of voting at general meetings of the Company; or

  (b) Upon the written requisition of any one shareholder who is a recognised clearing house (as defined in the Articles) or its nominee(s) deposited at the principal place of business of the Company in Hong Kong specifying the objects of the EGM and signed by the requisitionist, provided that such requisitionist held as at the date of deposit of the requisition not less than one-tenth of the paid-up capital of the Company which carries the right of voting at general meetings of the Company.

- If the Board does not within 21 days from the date of deposit of the requisition proceed duly to convene the EGM to be held within a further 21 days, the requisitionist(s) himself/themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the EGM in the same manner, as nearly as possible, as that in which EGMs may be convened by the Board, provided that any EGM so convened shall not be held after the expiration of 3 months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to them by the Company.

Procedures for Shareholders' Enquiries

During the year, the Company formulated the shareholders communication policy setting out (among other things) the procedures by which enquiries may be put to the Board as more particularly described above.

Shareholders' Right to put forward Proposals at General Meetings

During the year, the Company formulated the procedures for shareholders to propose candidates for election as a director of the Company, which is accessible on the website of the Company. In relation to other proposals which may be put forward at the Company's general meetings, during the year, the Company formulated the memorandum on shareholder rights which provides for (among other things) the following:

- In the absence of any general mechanism for the shareholders to put forward other proposals at the Company's general meetings under the Cayman Islands Companies Law, the shareholder(s) can submit a written requisition to move a proper resolution at a general meeting of the Company if such shareholder(s): (a) individually or collectively represent(s) not less than one-fortieth of the total voting rights of all the shareholders having as at the date of the requisition a right to vote at the Company's general meetings; or (b) are no less than 50 shareholders holding the shares in the Company on which there has been paid up an average sum, per shareholder, of not less than HK$2,000 (or its foreign equivalent).

- The written requisition shall (a) state the resolution, accompanied by a statement of not more than 1,000 words with respect to the matter referred to in the proposed resolution or the business to be dealt with at the relevant general meeting; (b) contain the signature(s) of all the requisitionist(s), which may be contained in one document or in several documents in like form; (c) be deposited with the company secretary at the following address not less than 6 weeks before the relevant general meeting (in the case of a requisition requiring notice of a resolution) or not less than 1 week before such general meeting (in the case of any other requisition); and (d) be accompanied by a sum of money reasonably sufficient to meet the Company's expenses in serving the notice of the resolution and circulating the statement given by the requisitionist(s) to all the shareholders in accordance with the requirements under applicable laws and regulations:

    The Company Secretary of Foxconn International Holdings Limited
    c/o Shenzhen Futaihong Precision Industrial Co., Ltd.
    Mailbox 201
    No.2, 2nd Donghuan Road
    10th Yousong Industrial District
    Longhua Town, Baoan
    Shenzhen City
    Guangdong Province
    518109
    People's Republic of China