

HON HAI PRECISION INDUSTRY CO., LTD.
AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT ACCOUNTANTS
DECEMBER 31, 2007 AND 2008

For the convenience of readers and for information purpose only, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. In the event of any discrepancy between the English version and the original Chinese version or any differences in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail. The English translation does not include additional disclosures that are required for Chinese-language reports under Guidelines for Securities Issuers' Financial Reporting promulgated by the Securities and Futures Commission of the Republic of China.

REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

To the Board of Directors and Stockholders:

Hon Hai Precision Industry Co., Ltd.

We have audited the accompanying consolidated balance sheets of Hon Hai Precision Industry Co., Ltd. and its subsidiaries as of December 31, 2007 and 2008, and the related consolidated statements of income, of changes in stockholders' equity and of cash flows for the years then ended, expressed in thousands of New Taiwan dollars. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of certain consolidated subsidiaries which statements reflect total assets of \$213,993,033,000 and \$180,302,711,000, constituting 24.67% and 20.52% of the consolidated total assets as of December 31, 2007 and 2008, respectively, and total revenues of \$350,446,998,000 and \$299,240,615,000, constituting 20.58% and 15.34% of the consolidated total operating revenues for the years then ended, respectively. Those statements were audited by other auditors, whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for these subsidiaries, is based solely on the reports of the other auditors.

We conducted our audits in accordance with the "Rules Governing the Examination of Financial Statements by Certified Public Accountants" and generally accepted auditing standards in the Republic of China. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, except for the omission of certain additional disclosures relating to the investee companies, as required by Article 13-1 of the Rules Governing the Preparation of Financial Statements by Securities Issuers, based on our audits and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hon Hai Precision Industry Co., Ltd. and its subsidiaries as of December 31, 2007 and 2008, and the results of their

operations and their cash flows for the years then ended in conformity with the “Rules Governing the Preparation of Financial Statements by Securities Issuers” and generally accepted accounting principles in the Republic of China.

As described in Note 3, effective January 1, 2008, the Company and subsidiaries adopted EITF 96-052, "Accounting for Employees' Bonus and Directors' and Supervisors' Remuneration", prescribed by the R.O.C. Accounting Research and Development Foundation. As a result of the adoption of EITF 96-052, consolidated net income decreased by \$2,995,170,000 and earnings per share decreased by \$0.40 for the year ended December 31, 2008.

PricewaterhouseCoopers, Taiwan
March 3, 2009

The accompanying consolidated financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the audit of such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying consolidated financial statements and report of independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice.

As the financial statements are the responsibility of the management, PricewaterhouseCoopers cannot accept any liability for the use of, or reliance on, the English translation or for any errors or misunderstandings that may derive from the translation.

HON HAI PRECISION INDUSTRY CO., LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

DECEMBER 31,

(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	2007	2008
<u>ASSETS</u>		
Current Assets		
Cash and cash equivalents (Note 4 (1))	\$ 144,376,145	\$ 99,142,368
Financial assets at fair value through profit or loss -		
current (Note 4 (2))	128,166	152,389
Available-for-sale financial assets - current (Note 4 (3))	1,272,051	692,984
Accounts receivable, net (Note 4 (4))	248,171,426	253,210,845
Accounts receivable, net - related parties (Note 5)	9,142,462	14,138,162
Other receivables (Notes 4 (5) and 5)	11,066,924	18,351,438
Inventories, net (Note 4 (6))	158,403,052	166,725,194
Prepayments	5,048,090	3,663,123
Deferred income tax assets - current (Note 4 (14))	2,282,215	2,672,961
	579,890,531	558,749,464
Funds and Investments		
Available-for-sale financial assets - non-current		
(Note 4 (3))	31,934,387	8,087,622
Financial assets carried at cost - non-current (Note 4 (7))	1,680,237	1,267,747
Long-term equity investments accounted for under the		
equity method (Note 4 (8))	29,644,052	25,654,728
Prepaid long-term investments (Note 4 (8))	670,390	-
	63,929,066	35,010,097
Other Financial Assets - Non-Current (Note 6)	604,845	119,201
Property, Plant and Equipment (Notes 4 (9) and 5)		
Cost		
Land	3,785,415	3,570,568
Buildings and improvements	60,682,270	92,386,545
Machinery	127,149,595	151,401,917
Molding equipment	3,271,673	2,836,777
Testing equipment	15,208,950	19,847,237
Office equipment	10,181,629	12,670,588
Tooling equipment	2,544,575	2,907,269
Other equipment	18,918,158	27,009,177
Total cost	241,742,265	312,630,078
Less: Accumulated depreciation	(68,437,728)	(91,593,360)
Accumulated impairment	(579,995)	(2,282,726)
Construction in progress and prepayments for equipment	29,650,257	35,177,308
	202,374,799	253,931,300
Intangible Asset (Note 4 (10))		
Goodwill	2,268,102	2,291,662
Other intangible assets	-	818,688
	2,268,102	3,110,350
Other Assets		
Deferred charges	3,115,140	6,231,396
Other assets – other (Notes 4 (11) and 6)	15,114,572	21,469,366
	18,229,712	27,700,762
TOTAL ASSETS	\$ 867,297,055	\$ 878,621,174

(continued)

HON HAI PRECISION INDUSTRY CO., LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (CONTINUED)
DECEMBER 31,
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	2007	2008
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
Current Liabilities		
Short-term loans (Note 4 (12))	\$ 104,644,796	\$ 59,923,464
Financial liabilities at fair value through profit or loss - current (Note 4 (2))	3,213	251,391
Accounts payable	256,389,454	252,445,959
Accounts payable - related parties (Note 5)	17,600,942	13,657,946
Income tax payable (Note 4 (14))	12,843,279	12,610,062
Accrued expenses (Notes 4 (13) (19))	31,889,312	43,349,521
Payables for equipment (Note 5)	6,939,849	8,068,285
Other payables	5,794,025	4,692,817
Receipts in advance	2,087,306	2,318,709
Long-term liabilities - current portion (Note 4(15))	-	17,658,358
Accrued warranty liabilities	2,585,721	4,521,983
Other current liabilities	3,128,221	2,590,724
	<u>443,906,118</u>	<u>422,089,219</u>
Long-term Liabilities		
Bonds payable (Note 4 (15))	28,759,958	16,680,000
Long-term loans (Note 4 (16))	32,404	33,948,000
	<u>28,792,362</u>	<u>50,628,000</u>
Other Liabilities		
Reserve for retirement plan (Note 4 (17))	995,896	1,027,505
Deferred income tax liabilities - non-current (Note 4 (14))	7,634,869	8,156,970
Other liabilities - other	2,463,118	2,398,657
	<u>11,093,883</u>	<u>11,583,132</u>
Total liabilities	<u>483,792,363</u>	<u>484,300,351</u>
Stockholders' Equity		
Stockholders' Equity of Parent Company		
Capital stock (Note 4 (18))		
Common stock	62,907,666	74,146,236
Capital reserve (Note 4 (20))		
Paid-in capital in excess of par value of common stock	20,221,815	20,221,815
Capital reserve from conversion of convertible bonds	18,482,483	18,482,483
Capital reserve from long-term investments	13,071,911	13,044,872
Capital reserve from stock warrants (Note 4 (15))	1,195,200	1,195,200
Retained earnings (Note 4 (21))		
Legal reserve	23,255,167	31,024,118
Undistributed earnings	164,458,000	177,920,130
Other adjustments of stockholders' equity		
Unrealized gain or loss on financial instruments (Note 4 (3))	35,906,996	4,727,053
Cumulative translation adjustments	11,210,314	20,423,841
Treasury stock	(18,901)	(18,901)
Stockholders' equity of parent company	<u>350,690,651</u>	<u>361,166,847</u>
Minority interest	32,814,041	33,153,976
Total stockholders' equity	<u>383,504,692</u>	<u>394,320,823</u>
Commitments and Contingent Liabilities (Note 7)		
Subsequent Events (Note 9)		
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 867,297,055</u>	<u>\$ 878,621,174</u>

The accompanying notes are an integral part of these consolidated financial statements.
See report of independent accountants dated March 3, 2009.

HON HAI PRECISION INDUSTRY CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31,
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS,
EXCEPT EARNINGS PER SHARE DATA)

	<u>2007</u>	<u>2008</u>		
Operating revenues				
Sales (Note 5)	\$ 1,703,945,741	\$ 1,951,973,830		
Sales returns	(797,568)	(1,383,283)		
Sales discounts	(484,748)	(109,186)		
Net operating revenues	<u>1,702,663,425</u>	<u>1,950,481,361</u>		
Operating costs				
Cost of goods sold (Notes 4 (23) and 5)	(1,535,140,419)	(1,779,687,656)		
Gross profit	<u>167,523,006</u>	<u>170,793,705</u>		
Operating expenses (Note 4 (23))				
Sales and marketing expenses	(25,173,928)	(29,421,020)		
General and administrative expenses	(33,544,379)	(44,416,202)		
Research and development expenses	(15,340,716)	(23,660,061)		
Total operating expenses	<u>(74,059,023)</u>	<u>(97,497,283)</u>		
Operating income	<u>93,463,983</u>	<u>73,296,422</u>		
Non-operating income and gains				
Interest income	2,659,650	4,734,167		
Gain on valuation of financial assets (Note 4 (2))	4,068	453,948		
Gain on valuation of financial liabilities (Note 4 (2))	141,576	297,743		
Investment income accounted for under the equity method (Note 4 (8))	3,644,203	1,600,428		
Dividend income	211,855	366,795		
Gain on disposal of property, plant and equipment (Note 5)	-	237,815		
Gain on disposal of investments (Note 4 (7))	597,324	-		
Foreign exchange gain - net	6,520,235	3,003,851		
Other non-operating income	3,188,762	3,261,502		
Total non-operating income and gains	<u>16,967,673</u>	<u>13,956,249</u>		
Non-operating expenses and losses				
Interest expense	(5,413,272)	(6,697,882)		
Loss on disposal of property, plant and equipment	(30,659)	-		
Provision for inventory obsolescence and market price decline	(2,212,888)	(2,087,131)		
Financing charges (Note 4 (4))	(309,426)	(987,199)		
Impairment loss (Notes 4 (7)(8)(9))	(52,193)	(3,162,701)		
Other non-operating losses	(1,275,802)	(1,724,078)		
Total non-operating expenses and losses	<u>(9,294,240)</u>	<u>(14,658,991)</u>		
Income before income tax	101,137,416	72,593,680		
Income tax expense (Note 4 (14))	(16,449,056)	(15,903,694)		
Consolidated net income	<u>\$ 84,688,360</u>	<u>\$ 56,689,986</u>		
Attributable to:				
Equity holders of the Company	\$ 77,689,512	\$ 55,133,175		
Minority interest	6,998,848	1,556,811		
	<u>\$ 84,688,360</u>	<u>\$ 56,689,986</u>		
	Before	After	Before	After
	income	income	income	income
	<u>tax</u>	<u>tax</u>	<u>tax</u>	<u>tax</u>
Earnings per common share (Note 4 (22))				
Basic earnings per common share				
Consolidated net income	\$13.64	\$11.42	\$ 9.79	\$ 7.65
Minority interest income	(0.96)	(0.94)	(0.30)	(0.21)
Net income attributable to equity holders of the Company	<u>\$12.68</u>	<u>\$10.48</u>	<u>\$ 9.49</u>	<u>\$ 7.44</u>
Diluted earnings per common share				
Consolidated net income	\$13.54	\$11.33	\$ 9.64	\$ 7.53
Minority interest income	(0.96)	(0.93)	(0.29)	(0.21)
Net income attributable to equity holders of the Company	<u>\$12.58</u>	<u>\$10.40</u>	<u>\$ 9.35</u>	<u>\$ 7.32</u>

The accompanying notes are an integral part of these consolidated financial statements.
See report of independent accountants dated March 3, 2009.

HON HAI PRECISION INDUSTRY CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	<u>Retained Earnings</u>				<u>Other Adjustments of Stockholders' Equity</u>				<u>Total</u>
	<u>Common stock</u>	<u>Capital Reserves</u>	<u>Legal reserve</u>	<u>Undistributed earnings</u>	<u>Unrealized gain or loss on financial instruments</u>	<u>Cumulative translation adjustments</u>	<u>Treasury stock</u>	<u>Minority interest</u>	
<u>2007</u>									
Balance at January 1, 2007	\$ 51,681,388	\$ 51,090,954	\$ 17,273,084	\$120,838,282	\$ 18,463,531	\$ 3,831,336	(\$ 18,901)	\$22,256,700	\$ 285,416,374
Appropriation of 2006 earnings									
Legal reserve	-	-	5,982,083	(5,982,083)	-	-	-	-	-
Cash dividends	-	-	-	(15,504,416)	-	-	-	-	(15,504,416)
Stock dividends	10,336,278	-	-	(10,336,278)	-	-	-	-	-
Employees' stock bonus	890,000	-	-	(890,000)	-	-	-	-	-
Employees' bonus	-	-	-	(1,357,017)	-	-	-	-	(1,357,017)
Consolidated net income for 2007	-	-	-	77,689,512	-	-	-	6,998,848	84,688,360
Unrealized gain on financial assets	-	-	-	-	12,885,348	-	-	-	12,885,348
Adjustments due to changes in equities of long-term investments	-	1,880,455	-	-	4,558,117	-	-	-	6,438,572
Cumulative translation adjustment	-	-	-	-	-	7,378,978	-	-	7,378,978
Minority interest	-	-	-	-	-	-	-	3,558,493	3,558,493
Balance at December 31, 2007	<u>\$ 62,907,666</u>	<u>\$ 52,971,409</u>	<u>\$ 23,255,167</u>	<u>\$164,458,000</u>	<u>\$ 35,906,996</u>	<u>\$ 11,210,314</u>	<u>(\$ 18,901)</u>	<u>\$32,814,041</u>	<u>\$ 383,504,692</u>
<u>2008</u>									
Balance at January 1, 2008	\$ 62,907,666	\$ 52,971,409	\$ 23,255,167	\$164,458,000	\$ 35,906,996	\$ 11,210,314	(\$ 18,901)	\$32,814,041	\$ 383,504,692
Appropriation of 2007 earnings									
Legal reserve	-	-	7,768,951	(7,768,951)	-	-	-	-	-
Cash dividends	-	-	-	(18,872,300)	-	-	-	-	(18,872,300)
Stock dividends	9,436,150	-	-	(9,436,150)	-	-	-	-	-
Employees' stock bonus	1,802,420	-	-	(1,802,420)	-	-	-	-	-
Employees' bonus	-	-	-	(3,791,224)	-	-	-	-	(3,791,224)
Consolidated net income for 2008	-	-	-	55,133,175	-	-	-	1,556,811	56,689,986
Unrealized loss on financial assets	-	-	-	-	(24,147,242)	-	-	-	(24,147,242)
Adjustments due to changes in equities of long-term investments	-	(27,039)	-	-	(7,032,701)	-	-	-	(7,059,740)
Cumulative translation adjustment	-	-	-	-	-	9,213,527	-	-	9,213,527
Minority interest	-	-	-	-	-	-	-	(1,216,876)	(1,216,876)
Balance at December 31, 2008	<u>\$ 74,146,236</u>	<u>\$ 52,944,370</u>	<u>\$ 31,024,118</u>	<u>\$177,920,130</u>	<u>\$ 4,727,053</u>	<u>\$ 20,423,841</u>	<u>(\$ 18,901)</u>	<u>\$33,153,976</u>	<u>\$ 394,320,823</u>

The accompanying notes are an integral part of these consolidated financial statements.
See report of independent accountants dated March 3, 2009.

HON HAI PRECISION INDUSTRY CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31,
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	<u>2007</u>	<u>2008</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Consolidated net income	\$ 84,688,360	\$ 56,689,986
Adjustments to reconcile consolidated net income to net cash provided by operating activities:		
Provision (reversal of allowance) for doubtful accounts	1,755,240	(529,448)
Depreciation	21,995,690	28,011,120
Amortization of intangible and other assets	4,172,319	4,725,011
Loss (gain) on disposal of property, plant and equipment, net	30,659	(237,815)
Impairment loss	52,193	3,162,701
Loss on valuation of financial assets and liabilities, net	3,026	238,403
Provision for inventory obsolescence and market price decline	2,212,888	2,087,131
Investment income accounted for under the equity method	(3,644,203)	(1,600,428)
Cash dividends from long-term investments accounted for under the equity method	1,211,788	1,151,931
(Gain) loss on disposal of investments	(597,324)	5,021
Amortization of discount of convertible bonds payable	398,400	398,400
Changes in assets and liabilities:		
Financial assets at fair value through profit or loss	3,011,592	(14,842)
Notes receivable	24,870	104,046
Accounts receivable	(42,206,662)	(4,603,918)
Accounts receivable - related parties	3,172,564	(5,005,799)
Inventories	(34,281,367)	(7,016,003)
Other receivables	(9,029,919)	(8,576,002)
Prepayments	(389,472)	1,384,967
Accounts payable	59,529,513	(11,909,374)
Accounts payable - related parties	6,074,264	(3,942,996)
Accrued expenses	1,903,447	10,620,665
Other payables and other current liabilities	719,708	(1,388,683)
Income tax payable	4,841,238	(233,217)
Accrued pension liabilities	103,168	31,609
Deferred income tax liabilities	(274,160)	(131,355)
Net cash provided by operating activities	<u>105,477,820</u>	<u>63,421,111</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Acquisition of property, plant and equipment	(87,634,306)	(69,866,509)
Increase in intangible assets and other assets	(3,756,134)	(7,042,764)
Acquisition of land use right	(7,843,231)	(5,173,911)
Increase in long-term equity investments	(7,070,412)	(1,833,693)
Acquisition of financial assets carried at cost	-	(545,469)
Acquisition of available-for-sale financial assets	(1,008,063)	-
Proceeds from disposal of property, plant and equipment	5,116,408	2,812,526
(Increase) decrease in other financial assets - non-current	(112,644)	517,861
Financial assets / liabilities at fair value through profit or loss	(54,652)	394
Refund from capital reduction in long-term investments	164,819	-
Proceeds from disposal of funds and investments	1,194,128	57,093
Net cash used in investing activities	<u>(101,004,087)</u>	<u>(81,074,472)</u>

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HON HAI PRECISION INDUSTRY CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31,
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	<u>2007</u>	<u>2008</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Increase (decrease) in short-term loans	\$ 63,850,960	(\$ 47,383,263)
Increase in long-term loans, net	-	33,948,000
Increase in bonds payable	-	5,180,000
Payment of long-term loans	(66,723)	(32,404)
Increase (decrease) in other liabilities - other	1,529,128	(64,461)
Payment of cash dividends	(15,504,416)	(18,872,300)
Payment of employees' bonus	(1,357,017)	(2,093,084)
Increase (decrease) in minority interest	<u>3,558,493</u>	<u>(1,216,876)</u>
Net cash provided by (used in) financing activities	<u>52,010,425</u>	<u>(30,534,388)</u>
Net effect of changes in foreign currency exchange rates	<u>1,621,569</u>	<u>4,265,804</u>
Changes in consolidated entities with no cash flow effect	<u>100,340</u>	<u>(1,311,832)</u>
Net increase (decrease) in cash and cash equivalents	58,206,067	(45,233,777)
Cash and cash equivalents at beginning of year	<u>86,170,078</u>	<u>144,376,145</u>
Cash and cash equivalents at end of year	<u>\$144,376,145</u>	<u>\$ 99,142,368</u>
<u>Supplemental disclosures of cash flow information:</u>		
Cash paid during the year for interest	<u>\$ 4,838,830</u>	<u>\$ 6,879,078</u>
Cash paid during the year for income tax	<u>\$ 11,881,978</u>	<u>\$ 16,232,519</u>
Cash paid for the acquisition of property, plant and equipment		
Increase in property, plant and equipment	\$ 90,783,223	\$ 71,008,780
Add: Payable - beginning	3,851,062	6,939,849
Less: Payable - ending	(6,939,849)	(8,068,285)
Effect of changes in foreign currency exchange rates	<u>(60,130)</u>	<u>(13,835)</u>
Cash paid	<u>\$ 87,634,306</u>	<u>\$ 69,866,509</u>
Investing activities with no cash flow effect:		
Adjustment for change in value of available-for-sale financial assets		
Unrealized gain (loss) on financial instruments	\$ 12,885,348	(\$ 24,147,242)
Evaluation of long-term investments accounted for under the equity method	<u>4,558,117</u>	<u>(7,032,701)</u>
	<u>\$ 17,443,465</u>	<u>(\$ 31,179,943)</u>
Cumulative translation adjustments	<u>\$ 7,378,978</u>	<u>\$ 9,213,527</u>

The accompanying notes are an integral part of these consolidated financial statements.
See report of independent accountants dated March 3, 2009.

HON HAI PRECISION INDUSTRY CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2008

(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT AS OTHERWISE INDICATED)

1. HISTORY AND ORGANIZATION

1) Hon Hai Precision Industry Co., Ltd. (the Company) was established on February 20, 1974. The Company was listed on the Taiwan Stock Exchange in June 1991. The Company merged with Premier Image Technology Corporation (Premier Corp.) on December 1, 2006. The Company's issued and outstanding capital was \$74,146,236. The main activities of the Company are the manufacture, processing and sales of connectors, cable, enclosures, wired/wireless communication products, optics products, power supply modules, and assemblies for use in the IT, communications, automotive equipment, precision molding, automobile, and consumer electronics industries. As of December 31, 2008, the Company and its subsidiaries had approximately 486,000 employees.

2) Consolidated subsidiaries

A. Main activities of the subsidiaries and ownership of the Company:

Names of subsidiaries	Relationship with the Company	Main operating activities	Ownership Percentage (%)	
			2007.12.31	2008.12.31
Foxconn (Far East) Ltd. and subsidiaries	Wholly-owned subsidiary	Investment holdings in Mainland China and Hong Kong electronics manufacturers	100%	100%
Foxconn Holding Ltd. and subsidiaries	Wholly-owned subsidiary	Investment holdings in Asia Pacific and North America hi-tech companies	100%	100%
Hyield Venture Capital Co., Ltd. and subsidiaries	Majority-owned subsidiary	Venture capital investment holdings	98%	98%
Bao Shin International Investment Co., Ltd. and subsidiaries	Wholly-owned subsidiary	Investment holdings in R.O.C. companies	100%	100%
Hon Yuan International Investment Co., Ltd. and subsidiaries	Wholly-owned subsidiary	Investment holdings in R.O.C. companies	100%	100%

Names of subsidiaries	Relationship with the Company	Main operating activities	Ownership Percentage (%)	
			2007.12.31	2008.12.31
Hon Chi International Investment Co., Ltd. and subsidiaries	Wholly-owned subsidiary	Investment holdings in R.O.C. companies	100%	100%
Lin Yih International Investment Co., Ltd.	Wholly-owned subsidiary	Investment holdings in R.O.C. company	100%	100%
Hon Hai/Foxconn Logistics California LLC.	Wholly-owned subsidiary	Logistics services	100%	100%
Hon Hai/Foxconn Logistics Texas LLC.	Wholly-owned subsidiary	Logistics services	100%	100%
Ambit International Ltd. and subsidiaries	Wholly-owned subsidiary	Investment holdings in Mainland China companies	100%	100%
Foxconn Singapore (Pte) Ltd. and subsidiaries	Wholly-owned subsidiary	Marketing	100%	100%
Foxconn International Inc.	Wholly-owned subsidiary	Research and development	100%	100%
Altus Technology Inc.	Wholly-owned subsidiary	Manufacture and design of cellular phone and camera lens and marketing of sensors	100%	100%

Names of subsidiaries	Relationship with the Company	Main operating activities	Ownership Percentage (%)	
			2007.12.31	2008.12.31
Premier Image Technology-Hong Kong Limited and subsidiaries	Majority-owned subsidiary	Manufacture and sales of camera	98%	99.96%
Foxconn SA B.V. and subsidiaries	Majority-owned subsidiary	Investment holdings	-	95%
Image & Vision Investment Corporation	Wholly-owned subsidiary	Investment holdings	100%	100%
Margini Holdings Limited and subsidiaries	Wholly-owned subsidiary	Investment holdings	100%	100%

A. The financial statements of consolidated subsidiaries as of and for the year ended December 31, 2008 were audited by independent accountants.

B. Changes in the consolidated subsidiaries

- (1) In March 2008, the Company established a holding company, Foxconn SA B.V., which is engaged in export processing business investments in Russia, and was accordingly included in the consolidated financial statements.
- (2) The subsidiary of the Company disposed its 100% share ownership of Sonics Trading Ltd. in the first quarter of 2008. Accordingly, Sonics Trading Ltd. was excluded from the consolidated financial statements effective on the disposal date.
- (3) The subsidiary of the Company disposed its 100% share ownership of Loyal News International Ltd. in the second quarter of 2008. Accordingly, Loyal News International Ltd. was excluded from the consolidated financial statements effective on the disposal date.
- (4) In June 2008, the Company disposed its 100% share ownership of Unique Logistics Ltd. due to reorganization; as a result, Unique Logistics Ltd.'s shares were 100% directly held by Foxconn (Far East) Ltd. The reorganization had no substantive effect on the financial statements.
- (5) In September 2008, Ambit Microsystems Holding Corp. disposed its subsidiary's 100% share ownership due to reorganization; as a result, the subsidiary of Ambit Microsystems Holding Corp.'s shares were 100% directly held by Foxconn (Far East) Ltd.

(6) Premier Image Technology-Hong Kong Limited increased its capital amounting to HK\$84,748,000 for the nine-month period ended September 30, 2008. The amount of capital increase was totally subscribed by Foxconn (Far East) Ltd., a subsidiary of the Company. As of December 31, 2008, the Company and subsidiaries totally held 99.96% equity interest in Premier Image Technology-Hong Kong Limited.

(7) Premier Image Technology – Japan Limited was liquidated in September 2008.

(8) The Company's indirect subsidiary, Ampower Holding Limited-Cayman, increased cash capital by issuing new shares in the fourth quarter of year 2008. As the Company did not subscribe for the new shares, the Company's shareholding percentage of Ampower Holding Limited-Cayman dropped to 45.4% and the Company lost control over the subsidiary. The income (loss) of Ampower Holding Limited-Cayman was excluded from the consolidated statement of income effective the date on which the Company lost control over the subsidiary.

3) Majority-owned subsidiaries that were not included in the consolidated financial statements:
None.

4) Adjustments and disposition of the different accounting period adopted by the subsidiaries:
None.

5) Special operating risks on the foreign subsidiaries: No significant special operating risks that would affect the financial statements.

6) Significant restriction on remittance of funds for the foreign subsidiaries' financial activities to the Company: None.

7) The Company's common stock owned by its subsidiary:

For the years ended December 31, 2007 and 2008, Hon Yiing International Investment Co., Ltd. owned the Company's common stock, at a cost of \$18,901.

8) Information on convertible bonds and new common stock issued by subsidiaries: None.

2.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements of the Company and its subsidiaries (collectively referred herein as the Group) are prepared in accordance with the "Rules Governing the Preparation of Financial Statements by Securities Issuers" and accounting principles generally accepted in the Republic of China. The Group's significant accounting policies are summarized below:

1) Basis for preparation of consolidated financial statements

A. All majority-owned subsidiaries and controlled entities are included in the consolidated financial statements. Effective January 1, 2008, the Company prepares consolidated financial statements on a quarterly basis.

- B. The income (loss) of the subsidiaries is included in (excluded from) the consolidated statement of income effective on the date the Company gains (loses) control over the subsidiaries.
- C. Significant intercompany transactions and assets and liabilities arising from intercompany transactions are eliminated.

2) Translation of financial statements of foreign subsidiaries into New Taiwan Dollars

Assets and liabilities of foreign subsidiaries are translated into New Taiwan dollars using the exchange rates at the balance sheet date. Equity accounts are translated at historical rates except for beginning retained earnings, which is carried forward from prior year's balance. Dividends are translated at the rates prevailing at the date of declaration. Profit and loss accounts are translated at weighted-average rates of the year. The resulting translation differences are included in "cumulative translation adjustments" under stockholders' equity.

3) Criteria for classifying assets and liabilities as current or non-current items

- A. Assets that meet one of the following criteria are classified as current assets; otherwise they are classified as non-current assets:
 - 1) Assets arising from operating activities that are expected to be realized or consumed, or are intended to be sold within the normal operating cycle;
 - 2) Assets held mainly for trading purposes;
 - 3) Assets that are expected to be realized within twelve months from the balance sheet date; and
 - 4) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to pay off liabilities more than twelve months after the balance sheet date.
- B. Liabilities that meet one of the following criteria are classified as current liabilities; otherwise they are classified as non-current liabilities:
 - 1) Liabilities arising from operating activities that are expected to be paid off within the normal operating cycle;
 - 2) Liabilities arising mainly from trading activities;
 - 3) Liabilities that are to be paid off within twelve months from the balance sheet date; and
 - 4) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date.

4) Use of estimates

The preparation of financial statements in conformity with R.O.C. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements and the amounts of revenues and expenses reported during the period. Actual results could differ from those assumptions and estimates.

5) Foreign currency transactions

- A. The Company and its consolidated subsidiaries maintain their accounts in New Taiwan dollars and functional currencies, respectively. Transactions denominated in foreign currencies are translated into New Taiwan dollars and their functional currencies at the spot exchange rates prevailing at the transaction dates. Exchange gains or losses due to the difference between the exchange rate on the transaction date and the exchange rate on the actual receipt and payment are recognized in current year's profit or loss.
- B. Receivables, other monetary assets and liabilities denominated in foreign currencies are translated at the spot exchange rates prevailing at the balance sheet date. Exchange gains or losses are recognized in profit or loss. However, exchange gains or losses on overseas inter-company accounts that are, in nature, deemed long term is accounted for as a reduction in stockholders' equity.
- C. When a gain or loss on a non-monetary item is recognized directly in equity, any exchange component of that gain or loss shall be recognized directly in equity. Conversely, when a gain or loss on a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss shall be recognized in profit or loss. However, non-monetary items that are measured on a historical cost basis are translated using the exchange rate at the date of the transaction.

6) Cash equivalents

Cash equivalents represent short-term, highly liquid investments, which include short-term commercial papers and bonds purchased with a resale agreement, with a maturity period of less than three months.

7) Financial assets and financial liabilities at fair value through profit or loss

- A. Equity investments are recognized using trade date accounting. Debt instruments, beneficiary certificates and derivative financial instruments are recognized and derecognized using settlement date accounting. All are recognized initially at fair value.
- B. These financial instruments are subsequently remeasured and stated at fair value, and the gain or loss is recognized in profit or loss. The fair value of listed stocks, OTC stocks and closed-end mutual funds is based on latest quoted fair prices of the accounting period. The fair value of open-end and balanced mutual funds is based on the net asset value at the balance sheet date.
- C. Derivatives not qualified for hedge accounting but under the method of option transaction are recognized at fair value on the trade date; derivatives not under the method of option transaction are recognized at zero fair value on the trade date.
- D. The derivative features (such as call options and put options) embedded in compound financial instruments are described in Note 2 (21).

8) Available-for-sale financial assets

- A. Equity investments are recognized using trade date accounting. Bond investments are recognized and derecognized using settlement date accounting and are recognized initially at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset.
- B. Available-for-sale financial assets are remeasured and stated at fair value, and the gain or loss is recognized in equity. The fair value of listed stocks, OTC stocks and closed-end mutual funds is based on latest quoted fair prices of the accounting period. The fair value of open-end and balanced mutual funds is based on the net asset value at the balance sheet date.
- C. If there is any objective evidence that the financial asset is impaired, the cumulative loss that had been recognized directly in equity shall be removed from equity and recognized in profit or loss. Impairment losses recognized previously in profit or loss for an investment in an equity instrument shall not be reversed through profit or loss, and if, subsequently, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognized in profit or loss.

9) Financial assets carried at cost

- A. Investment in unquoted equity instruments is recognized using trade date accounting and is recognized initially at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset.
- B. If there is any objective evidence that the financial asset is impaired, the impairment loss is recognized in profit or loss. Such impairment loss cannot be reversed.

10) Settlement date accounting

If an entity recognizes financial assets using settlement date accounting, any change in the fair value of the asset to be received during the period between the trade date and the settlement date / balance sheet date is not recognized for assets carried at cost or amortized cost. For financial asset or financial liability classified as at fair value through profit or loss, the change in fair value is recognized in profit or loss. For available-for-sale financial assets, the change in fair value is recognized directly in equity.

11) Accounts receivable

Accounts receivable are claims resulting from the sale of goods or services. The fair value of accounts receivable is calculated based on the imputed interest rate. Accounts receivable which are collectible within one year, and where the difference between the fair value and the value at maturity is insignificant are measured at carrying value.

12) Allowance for doubtful accounts

Allowance for doubtful accounts is provided based on past experience and the evaluation of the collectibility of accounts, notes and other receivables, taking into account the aging analysis of receivables.

13) Inventories

Inventories are stated at the lower of cost or market value. Inventory cost is determined using the weighted-average cost method. The aggregate value method is used to determine the lower of cost or market value. The market value for raw materials is determined based on current replacement cost while the market value for work in process and finished goods inventories is determined based on net realizable value. Provision for obsolescence is based on the specific identification method.

14) Long-term equity investments accounted for under equity method

A. Long-term equity investments in which the Group holds more than 20% of the investee company's voting shares or has the ability to exercise significant influence on the investee's operational decisions are accounted for under the equity method. The excess of the initial investment cost over the acquired net asset value of the investee attributable to goodwill is no longer amortized from 2006. Retrospective adjustment of the amount of goodwill amortized in previous years is not required. Goodwill is subject to tests of impairment on an annual basis. The excess of acquired net asset value of investee over the initial investment cost is allocated proportionately and applied as a reduction to the book values of identifiable non-current assets, and any remaining amount of such excess after this allocation is credited to extraordinary gains.

B. Long-term investment in which the Group holds more than 50% or has the ability to control the investee's operational decisions are accounted for under the equity method and included in the consolidated financial statements.

C. For foreign investments accounted for under the equity method, the Group's proportionate share of the investee company's cumulative translation adjustment, resulting from translating the foreign investee company's financial statements into New Taiwan Dollars, is recognized by the Group and included as "cumulative translation adjustments" under stockholders' equity.

15) Property, plant and equipment

A. Property, plant and equipment are stated at cost. Interest costs incurred on the loans used to bring the assets to the condition and location necessary for their intended uses are capitalized. Significant renewals or betterments are capitalized and depreciated accordingly. Maintenance and repairs are expensed as incurred.

B. Depreciation is provided on the straight-line method using the service life guidelines prescribed by the R.O.C. Government, which approximate the useful lives of the assets. Fully depreciated assets still in use are depreciated based on the residual values over the remaining useful lives. The useful lives of property, plant and equipment are 2 to 8 years, except for buildings which are 45 to 55 years.

16) Goodwill and other intangible assets

A. The excess of the initial acquisition cost over the fair value of the acquired identifiable tangible and intangible assets is attributable to goodwill.

B. Other intangible assets, mainly customer relationship, are stated at cost and amortized on a straight-line basis over 3 years.

17) Deferred charges and other assets

A. The costs of telephone network installation charges, computer software, molding and tools equipment are recorded as deferred charges and amortized over their estimated economic lives on a straight-line basis.

B. Land use rights are stated at cost and amortized over the lease period using the straight-line method.

18) Impairment of non-financial assets

The Group recognizes impairment loss when there is indication that the recoverable amount of an asset is less than its carrying amount. The recoverable amount is the higher of the fair value less costs to sell and value in use. The fair value less costs to sell is the amount obtainable from the sale of the asset in an arm's length transaction after deducting any direct incremental disposal costs. The value in use is the present value of estimated future cash flows to be derived from continuing use of the asset and from its disposal at the end of its useful life. When the impairment no longer exists, the impairment loss recognized in prior years shall be recovered. The recoverable amount of goodwill shall be evaluated periodically. Impairment loss will be recognized whenever there is indication that the recoverable amount of these assets is less than their respective carrying amount. Impairment loss of goodwill recognized in prior years is not recoverable in the following years.

19) Warranty obligation

Warranty obligation is recognized based on the estimated warranty cost per unit and the number of units sold during the period.

20) Pension plan

Under the defined benefit pension plan, net periodic pension costs are recognized in accordance with the actuarial calculations. Net periodic pension costs include service cost, interest cost, expected return on plan assets, and amortization of unrecognized net transition obligation and gains or losses on plan assets. Unrecognized net transition obligation is amortized on a

straight-line basis over 15 years. Under the defined contribution pension plan, net periodic pension costs are recognized as incurred.

21) Bonds payable

For the bonds payable issued after January 1, 2006, the issuer of a financial instrument shall classify the instrument, or its component parts, on initial recognition as a financial liability, a financial asset or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability, a financial asset and an equity instrument. These bonds are accounted for as follows:

- A. The difference between the issue price and face value of convertible corporate bonds is accounted for as premium or discount which is required to be amortized over the period from the date of issuance to maturity date using the interest method and is recorded as “interest expense”.
- B. The value of any derivative features (such as a call option and put option) embedded in the compound financial instrument is recognized as “financial assets or financial liabilities at fair value through profit or loss”. These derivative features are subsequently remeasured and stated at fair value on each balance sheet date, and the gain or loss is recognized in “gain or loss on valuation of financial assets or financial liabilities”. At the maturity of the redemption period, if the fair value of common stock exceeds the redemption price, the fair value of the put option is recognized as “paid-in capital”; however, if the fair value of common stock is lower than the redemption price, the fair value of the put option is recognized as “gain or loss”.
- C. A conversion option embedded in the bonds issued by the Company, which is convertible to an equity instrument, is recognized in “capital reserve from stock warrants”. When a bondholder exercises his/her conversion rights, the liability component of the bonds (including corporate bonds and embedded derivatives) shall be revalued at fair value on the conversion date, and the resulting difference shall be recognized as “gain or loss” in the current period. The book value of the common stock issued due to the conversion shall be based on the adjusted book value of the above-mentioned liability component plus the book value of the stock warrants.
- D. Costs incurred on issuance of convertible bonds are proportionately charged to the liabilities and equities of the underlying instruments based on initial recognition costs.
- E. In the event that the bondholders may exercise put options within the following year, the underlying bonds payable shall be reclassified to current liabilities. The bonds payable whose put options are unexercised during the exercisable period shall be reversed to non-current liabilities.

22) Income tax

- A. Income tax expense is provided based on accounting income after adjusting for permanent differences. The provision for income tax includes deferred income tax for the expected future tax consequences of events that have been included in different periods for financial or tax reporting purposes. Deferred income tax assets and liabilities are determined using enacted tax rates in effect for the year(s) in which the differences are expected to reverse. Valuation allowance on deferred income tax assets is recognized to the extent that it is more likely than not that the income tax benefits will not be realized. Over or under provision of income tax from the previous years is recorded as adjustment to the current year's income tax expense. In accordance with the ROC Income Tax Law, the company's undistributed income is subject to an additional 10% corporate income tax. The tax is charged to income tax expense after the appropriation of earnings is approved by the stockholders in the following year.
- B. Income tax credits are provided for in accordance with R.O.C. SFAS No. 12 "Accounting for Income Tax Credits". Income tax credits arising from acquisitions of equipment or technology, expenditures for research and development, training and development of employees and investments in qualified stocks are charged to deferred income tax assets and credited to income tax expense in the period the related expenditures are incurred.
- C. Effective January 1, 2006, the Company adopted the Income Basic Tax Act (the "Act"). Under the Act, the income tax payable shall be the higher of the basic tax and the regular income tax in accordance with the Income Tax Law and other relevant laws.

23) Treasury stock

- A. The Company adopted the R.O.C. SFAS No. 30 "Accounting for Treasury Stocks" to account for the treasury stock.
- B. When the treasury shares are reissued, the treasury stock account is credited and the difference between the proceeds received and the cost is treated as an adjustment of stockholders' equity. Any excess of the proceeds over the cost of the treasury stock reissued is recognized as an increase in additional paid-in capital from the treasury stock transaction and if the proceeds are less than the cost, the deficit is charged to the additional paid-in capital account. Should the additional paid-in capital balance be insufficient to absorb the deficit, the balance is charged to retained earnings.
- C. Treasury stock cost is determined using the weighted-average cost method.
- D. The Company's common stock owned by its subsidiaries is treated as treasury stock.

24) Share-based payment employee compensation plan

Based on the employee stock options and the share-based payment agreements, the Company shall measure the services received during the vesting period by reference to the fair value of the equity instruments granted and account for those amounts as payroll expenses during that period.

25) Employees' bonuses and directors' and supervisors' remuneration

Effective January 1, 2008, pursuant to EITF 96-052 of the Accounting Research and Development Foundation, R.O.C., dated March 16, 2007, "Accounting for Employees' Bonuses and Directors' and Supervisors' Remuneration", the costs of employees' bonuses and directors' and supervisors' remuneration are accounted for as expenses and liabilities, provided that such recognition is required under legal or constructive obligation and the amounts can be estimated reasonably. However, if the accrued amounts for employees' bonuses and directors' and supervisors' remuneration are significantly different from the actual distributed amounts resolved by the stockholders at their annual stockholders' meeting subsequently, the differences shall be recognized as gain or loss in the following year. In addition, according to EITF 97-127 of the Accounting Research and Development Foundation, R.O.C., dated March 31, 2008, "Criteria for Listed Companies in Calculating the Number of Shares of Employees' Stock Bonus", the Company calculates the number of shares of employees' stock bonus based on the closing price of the Company's common stock at the previous day of the stockholders' meeting held in the year following the financial reporting year, after taking into account the effects of ex-rights and ex-dividends.

26) Earnings per share

Basic earnings per share is calculated by dividing net income by the weighted-average number of shares outstanding during the period. Diluted earnings per share is calculated by taking into account the potentially dilutive securities which are assumed to have been converted to common stock at the beginning of the period.

27) Revenues and expenses

Revenues are recognized when the earning process is substantially completed and are realized or realizable. Expenses, including research and development costs, are recognized as incurred.

3. CHANGE IN ACCOUNTING PRINCIPLE

Employees' bonuses and directors' and supervisors' remuneration

Effective January 1, 2008, the Group adopted EITF 96-052 of the Accounting Research and Development Foundation, R.O.C., dated March 16, 2007. As a result of the adoption of EITF 96-052, consolidated net income decreased by \$2,995,170 and earnings per share decreased by \$0.40 for the year ended December 31, 2008.

4. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	<u>December 31,</u>	
	<u>2007</u>	<u>2008</u>
Cash on hand	\$ 11,740,345	\$ 8,900,464
Checking accounts	3,835,968	1,400,350
Savings deposits	23,814,927	30,293,511
Time deposits	<u>84,063,995</u>	<u>51,445,376</u>
	123,455,235	92,039,701
Cash equivalents	<u>20,920,910</u>	<u>7,102,667</u>
	<u>\$ 144,376,145</u>	<u>\$ 99,142,368</u>

(2) Financial assets and liabilities at fair value through profit or loss

	<u>December 31, 2007</u>	
	<u>Book value</u>	<u>Contract amount (Nominal principal) (in thousands)</u>
<u>Financial assets held for trading</u>		
Futures contracts	\$ 55,699	-
Open-end funds	72,280	-
Forward exchange contracts	<u>187</u>	JPY(BUY) 1,877,498 USD(SELL) 16,460
	<u>\$ 128,166</u>	
<u>Financial liabilities held for trading</u>		
Forward exchange contracts		USD(BUY) 30,000 TWD(SELL) 967,480 CZK(BUY) 268,740 USD(SELL) 15,000
	<u>(\$ 3,213)</u>	

	December 31, 2008	
	Book value	Contract amount (Nominal principal) (in thousands)
<u>Financial assets held for trading</u>		
Futures contracts	\$ 127,821	-
Open-end funds	15,000	-
Forward exchange contracts-open	9,568	USD(BUY) 3,500 VND(BUY) 312,118,894 USD(SELL) 18,190 INR(SELL) 166,691
	<u>\$ 152,389</u>	
<u>Financial liabilities held for trading</u>		
Forward exchange contracts-open	(\$ 247,971)	USD(BUY) 1,547,138 JPY(BUY) 620,310 EUR(SELL) 25,000 RMB(SELL) 10,433,963
Forward exchange contracts-offset	(3,420)	USD(BUY) 20,055 RMB(SELL) 135,935 USD(SELL) 20,049 RMB(BUY) 135,935
	<u>(\$ 251,391)</u>	

- 1) For the year ended December 31, 2008, the Group recognized a net gain of \$751,691 including unrealized loss of \$238,403.
- 2) For the year ended December 31, 2007, the Group recognized a net gain of \$43,913 including unrealized loss of \$3,026.

(3) Available-for-sale financial assets

	December 31,	
	2007	2008
<u>Current items:</u>		
Listed stocks	\$ 61,275	\$ 70,911
Adjustment of available-for-sale financial assets	1,210,776	622,073
	<u>\$ 1,272,051</u>	<u>\$ 692,984</u>
<u>Non-current items:</u>		
Listed stocks	\$ 5,533,187	\$ 5,244,961
Adjustment of available-for-sale financial assets	26,401,200	2,842,661
	<u>\$ 31,934,387</u>	<u>\$ 8,087,622</u>

The fair value of available-for-sale financial assets increased by \$17,443,465 and decreased by \$31,179,943 for the years ended December 31, 2007 and 2008, respectively, and is shown as an adjustment to stockholders' equity as unrealized gain or loss on financial instruments. Transfers from this equity account to profit and loss amounted to \$97 and \$0 for the years ended December 31, 2007 and 2008, respectively.

(4) Notes and accounts receivable - third parties

	December 31, 2007		
	<u>Amount</u>	<u>Allowance for doubtful accounts</u>	<u>Net amount</u>
Notes receivable	\$ 1,153,493	(\$ 74,597)	\$ 1,078,896
Accounts receivable	<u>250,255,292</u>	<u>(3,162,762)</u>	<u>247,092,530</u>
	<u>\$251,408,785</u>	<u>(\$ 3,237,359)</u>	<u>\$248,171,426</u>

	December 31, 2008		
	<u>Amount</u>	<u>Allowance for doubtful accounts</u>	<u>Net amount</u>
Notes receivable	\$ 1,049,447	(\$ 74,597)	\$ 974,850
Accounts receivable	<u>254,859,210</u>	<u>(2,623,215)</u>	<u>252,235,995</u>
	<u>\$255,908,657</u>	<u>(\$ 2,697,812)</u>	<u>\$253,210,845</u>

1. The Group factored its accounts receivable to certain financial institutions without recourse. Under the agreement, the Group is not required to bear uncollectible risk of the underlying accounts receivable, but is liable for the losses incurred on any business dispute. As the Group did not provide any collateral, these accounts receivable meet the derecognition criteria for financial assets. The Group has derecognized the accounts receivable sold to financial institutions, net of the losses estimated for possible business disputes.

As of December 31, 2007 and 2008, the relevant information of accounts receivable factored but unsettled were as follows:

<u>Institutions</u>	<u>Interest rate (%)</u>	December 31, 2007		<u>Amount retained (shown as other receivables)</u>	<u>Limit</u>
		<u>Accounts receivable sold/ derecognized</u>	<u>Amount advanced</u>		
Mega International Commercial Bank	5.40~5.50	\$12,757,530	\$12,757,530	\$ -	\$16,215,000
Taipei Fubon Bank	5.44~5.47	8,516,431	7,999,202	517,229	12,972,000
Sumitomo Mitsui Banking Corporation	5.49~5.74	<u>17,836,500</u>	<u>17,836,500</u>	-	<u>30,808,500</u>
		<u>\$39,110,461</u>	<u>\$38,593,232</u>	<u>\$ 517,229</u>	<u>\$59,995,500</u>

December 31, 2008

Institutions	Interest rate (%)	Accounts receivable sold/ derecognized	Amount advanced	Amount retained	Limit
Mega International Commercial Bank	2.75	\$ 4,100,000	\$ 4,100,000	\$ -	\$16,400,000
Taipei Fubon Bank	1.1783	7,216,000	7,216,000	-	22,960,000
Sumitomo Mitsui Banking Corporation	2.77	3,247,200	3,247,200	-	11,480,000
Standard Chartered Commercial Bank	2.6574	1,182,329	1,182,329	-	4,920,000
		<u>\$15,745,529</u>	<u>\$15,745,529</u>	<u>\$ -</u>	<u>\$55,760,000</u>

2. For the years ended December 31, 2007 and 2008, the financing charges (expenses) incurred from accounts receivable factoring were \$309,426 and \$987,199 (shown as “financing charges”), respectively.

(5) Other receivables

	December 31,	
	2007	2008
Tax refund receivable	\$ 6,082,108	\$ 14,250,121
Receivables for payments made on behalf of others	698,535	1,441,541
Amount retained on accounts receivable sold	517,229	-
Others	3,769,052	2,659,776
	<u>\$ 11,066,924</u>	<u>\$ 18,351,438</u>

(6) Inventories

	December 31,	
	2007	2008
Raw materials and supplies	\$ 60,527,692	\$ 58,347,310
Work in process	22,957,787	33,374,872
Finished goods	66,336,963	60,436,068
Inventory in transit	14,680,248	23,096,017
	164,502,690	175,254,267
Less: Allowance for inventory obsolescence and market price decline	(6,099,638)	(8,529,073)
	<u>\$158,403,052</u>	<u>\$166,725,194</u>

(7) Financial assets carried at cost

<u>Name of investee company</u>	<u>December 31,</u>	
	<u>2007</u>	<u>2008</u>
Diamondhead Ventures Ltd.	\$ 440,687	\$ 307,638
Global Strategic Investment Inc.	290,585	200,400
Entire Technology Co., Ltd.	227,500	148,489
Others	721,465	611,220
	<u>\$ 1,680,237</u>	<u>\$ 1,267,747</u>

- 1) The Group recognized impairment loss amounting to \$957,730 (shown as impairment loss) in 2008 for its investment accounted for under the cost method.
- 2) Under the approval of the Fair Trade Commission, Executive Yuan, R.O.C. in April 2007, Taihsing International Telecommunications Co., Ltd. tendered offers for the acquisition of the shares of Taiwan Fixed Network Co., Ltd. The Group disposed 119,000 shares of Taiwan Fixed Network Co., Ltd. due to participation in the tender offers resulting in a gain on disposal of \$508,737.
- 3) The investments in these investee companies were measured at cost since its fair value cannot be measured reliably.

(8) Long-term equity investments accounted for under the equity method

<u>Investee Company</u>	<u>Ownership Percentage (%)</u>	<u>December 31, 2008</u>	
		<u>December 31,</u>	
		<u>2007</u>	<u>2008</u>
Foxconn Technology Co., Ltd.	31	\$15,354,959	\$11,457,369
Pan International Industrial Corporation	27	4,957,551	3,058,053
Foxconn Advanced Technology, Ltd.-Cayman	43	4,295,644	3,722,129
Simplo Technology Co., Ltd.	9	1,535,118	1,593,191
G-Tech Optoelectronics Corporation	42	826,278	752,538
CyberTAN Technology, Inc.	11	512,095	482,196
Alliance Fiber Optic Products Inc.	20	278,295	316,371
Ways Technical Corp., Ltd.	24	-	1,089,745
Ampower Holding Limited - Cayman	46	-	1,047,389
Diabell Co., Ltd.	20	-	252,523
Others		1,884,112	1,883,224
		<u>29,644,052</u>	<u>25,654,728</u>
Add: Prepaid long-term investment		670,390	-
		<u>\$30,314,442</u>	<u>\$25,654,728</u>

1. The Company's indirect subsidiary, Ampower Holding Limited-Cayman, increased cash capital by issuing new shares in the fourth quarter of 2008. As the Company did not subscribe for the new shares, the Company's shareholding percentage of Ampower Holding Limited-Cayman dropped to 45.4% and the Company lost control over the subsidiary. The income (loss) of Ampower Holding Limited-Cayman was excluded from the consolidated statement of income effective the date on which the Company lost control over the subsidiary. The relevant information is described in Note 1(2)C.
2. The Group recognized impairment loss amounting to \$539,213 (shown as impairment loss) in 2008 on its investment accounted for under the equity method.
3. For the years ended December 31, 2007 and 2008, the investment income recognized under the equity method amounted to \$3,644,203 and \$1,600,428, respectively, which was based on the investees' audited financial statements.
4. For the years ended December 31, 2007 and 2008, cash dividends declared by the investee companies accounted for under the equity method amounted to \$1,211,788 and \$1,151,931, respectively, and were shown as a reduction to the book value of long-term investments accounted for under the equity method.

(9) Property, plant and equipment

	<u>December 31, 2007</u>		
	<u>Original cost</u>	<u>Accumulated depreciation</u>	<u>Net book value</u>
Land	\$ 3,785,415	\$ -	\$ 3,785,415
Buildings and improvements	60,682,270	(9,588,339)	51,093,931
Machinery	127,149,595	(37,754,144)	89,395,451
Molding equipment	3,271,673	(2,521,255)	750,418
Testing equipment	15,208,950	(6,589,328)	8,619,622
Furniture and fixtures	10,181,629	(4,914,831)	5,266,798
Tooling equipment	2,544,575	(1,165,519)	1,379,056
Miscellaneous equipment	18,918,158	(5,904,312)	13,013,846
Prepayments for equipment and construction in progress	29,650,257	-	29,650,257
	<u>\$ 271,392,522</u>	<u>(\$ 68,437,728)</u>	202,954,794
Less: Accumulated impairment			(579,995)
			<u>\$202,374,799</u>

	December 31, 2008		
	<u>Original cost</u>	<u>Accumulated depreciation</u>	<u>Net book value</u>
Land	\$ 3,570,568	\$ -	\$ 3,570,568
Buildings and improvements	92,386,545	(13,160,869)	79,225,676
Machinery	151,401,917	(50,332,488)	101,069,429
Molding equipment	2,836,777	(2,351,250)	485,527
Testing equipment	19,847,237	(9,015,526)	10,831,711
Furniture and fixtures	12,670,588	(6,425,934)	6,244,654
Tooling equipment	2,907,269	(1,285,959)	1,621,310
Miscellaneous equipment	27,009,177	(9,021,334)	17,987,843
Prepayments for equipment and construction in progress	35,177,308	-	35,177,308
	<u>\$ 347,807,386</u>	<u>(\$ 91,593,360)</u>	256,214,026
Less: Accumulated impairment			(2,282,726)
			<u>\$253,931,300</u>

The Group recognized impairment loss of \$ 52,193 and \$1,665,758 (shown as “impairment loss”) in 2007 and 2008, respectively.

(10) Intangible assets

A. Goodwill

	<u>For the years ended December 31,</u>	
	<u>2007</u>	<u>2008</u>
Net book value, January 1	\$ 2,265,910	\$ 2,268,102
Increase in current year - combined acquisition	12,075	-
Cumulative translation adjustments	(9,883)	23,560
Net book value, December 31	<u>\$ 2,268,102</u>	<u>\$ 2,291,662</u>

The above amount mainly represents goodwill arising from the acquisition of Chi Mei Communication System, Inc. in 2005.

B. Other intangible assets - customer relationship

In February 2008, the Company’s subsidiary, Foxteq Holding Inc.-Cayman, signed an assets purchase agreement with Sanmina-SCI Corporation, Sanmina- SCI USA Inc., SCI Technology, Inc., Sanmina- SCI Systems De Mexico S.A. De C.V., Sanmina- SCI Hungary Electronics Manufacturing LLC. and Sanmina- SCI Australia Pty Ltd. for the acquisition of certain assets and liabilities of these companies. The acquisition cost was US\$70 million. The assets acquisition effective date was set on July 7, 2008. The intangible assets - customer relationship resulting from the above acquisitions, which were appraised by the Company and experts, amounted to \$965,100. The changes in the intangible assets - customer relationship for the year ended December 31, 2008 are set forth below:

	<u>For the year ended December 31, 2008</u>	
Increase in current year	\$	965,100
Amortization in current year	(158,911)
Cumulative translation adjustments		12,499
Net book value, December 31	\$	<u>818,688</u>

(11) Other assets

	<u>December 31,</u>	
	<u>2007</u>	<u>2008</u>
Land use rights	\$ 13,310,595	\$ 19,091,762
Others	1,803,977	2,377,604
	<u>\$ 15,114,572</u>	<u>\$ 21,469,366</u>

As of December 31, 2007 and 2008, the land use rights were as follows:

	<u>For the years ended December 31,</u>	
	<u>2007</u>	<u>2008</u>
Net book value, January 1	\$ 5,405,364	\$ 13,310,595
Increase in current year	7,843,231	5,173,911
Amortization in current year	(479,668)	(590,020)
Cumulative translation adjustments	541,668	1,197,276
Net book value, December 31	<u>\$ 13,310,595</u>	<u>\$ 19,091,762</u>

(12) Short-term loans

	<u>December 31,</u>	
	<u>2007</u>	<u>2008</u>
Credit loans	\$ 102,430,622	\$ 59,923,464
Secured loans	2,214,174	-
	<u>\$ 104,644,796</u>	<u>\$ 59,923,464</u>
Interest rates per annum	<u>2.88%~5.90%</u>	<u>1.37%~5.80%</u>

(13) Accrued expenses

	<u>December 31,</u>	
	<u>2007</u>	<u>2008</u>
Awards and salaries payable	\$ 9,839,766	\$ 11,954,439
Business Tax (VAT) payable	3,049,346	4,189,750
Employees' bonuses payable	-	3,969,589
Welfare fees payable	2,627,110	2,698,124
Royalty fees payable	707,285	2,157,461
Shipping fees payable	2,946,616	2,028,231
Tax payable (excluding VAT)	131,539	967,827
Processing fees payable	264,789	675,333
Interest payable	904,042	672,329
Others	11,418,819	14,036,438
	<u>\$ 31,889,312</u>	<u>\$ 43,349,521</u>

The Employees' bonuses payable is described in Note 4(21).

(14) Income tax

1) Income tax expense and income tax payable are reconciled as follows:

	<u>December 31,</u>	
	<u>2007</u>	<u>2008</u>
Income tax expense	\$ 16,449,056	\$ 15,903,694
Changes in deferred income tax	274,160	131,355
Less: Prepaid income tax and income tax withheld	(4,565,382)	(4,376,372)
Effect of tax rate different from the U.S. branch	(98,089)	(35,747)
(Under) over provision of prior years' income tax	(97,926)	205,761
Add: Income tax payable at the beginning of the year	881,460	781,371
Income tax payable	<u>\$ 12,843,279</u>	<u>\$ 12,610,062</u>

2) As of December 31, 2007 and 2008, the deferred income tax assets and liabilities were as follows:

	<u>December 31,</u>	
	<u>2007</u>	<u>2008</u>
Deferred income tax assets	<u>\$ 3,356,016</u>	<u>\$ 3,108,851</u>
Deferred income tax liabilities	<u>(\$ 8,708,670)</u>	<u>(\$ 8,592,860)</u>

3) The temporary differences and related amounts of deferred tax assets (liabilities) are listed as follows:

	<u>December 31,</u>			
	<u>2007</u>		<u>2008</u>	
	<u>Amount</u>	<u>Tax effect</u>	<u>Amount</u>	<u>Tax effect</u>
Current items:				
Reserve for unrealized loss on inventory obsolescence	\$ 3,917,947	\$1,026,318	\$ 5,758,952	\$1,439,738
Unrealized exchange losses	649,046	161,491	734,080	183,487
Product warranty	2,753,285	700,379	3,542,262	885,566
Allowance for doubtful accounts	1,111,909	277,978	288,747	72,313
Others	207,615	116,049	369,634	91,857
	<u>\$ 8,639,802</u>	<u>2,282,215</u>	<u>\$10,693,675</u>	<u>2,672,961</u>
Non-current items:				
Reserve for pension cost	\$ 793,870	198,468	\$ 818,314	204,579
Foreign investment income accounted for under the equity method	(34,834,682)	(8,708,670)	(34,371,444)	(8,592,860)
Difference in depreciation	194,400	48,600	54,218	13,555
Loss carryforward	1,557,244	389,311	-	-
Others	1,208,000	437,422	871,007	217,756
	<u>(\$31,081,168)</u>	<u>(7,634,869)</u>	<u>(\$32,627,905)</u>	<u>(8,156,970)</u>
		<u>(\$5,352,654)</u>		<u>(\$5,484,009)</u>

4) As of December 31, 2008, the Company's and Premier's income tax returns have been approved by the R.O.C. Tax Authority through 2006 and 2003, respectively.

(15) Bonds payable

	December 31,	
	2007	2008
2006 1st domestic convertible bonds payable	\$ 18,000,000	\$ 18,000,000
Less: Discount on bonds payable	(740,042)	(341,642)
	<u>17,259,958</u>	<u>17,658,358</u>
First unsecured corporate bonds issue in 2005	<u>11,500,000</u>	<u>11,500,000</u>
First debenture issue of 2008	<u>-</u>	<u>5,180,000</u>
	28,759,958	34,338,358
Less: Current portion	<u>-</u>	<u>(17,658,358)</u>
Bonds payable – long term	<u>\$ 28,759,958</u>	<u>\$ 16,680,000</u>

1) 2006 1st domestic convertible bonds payable

- A. On September 1, 2006, following the approval from the SFB, the Company issued domestic unsecured bonds in the amount of \$18,000,000. These convertible bonds cover a period of five years from November 10, 2006 to November 10, 2011.
- B. The conversion price shall be adjusted based on the terms of the convertible bonds. As of December 31, 2008, the convertible bonds have not been redeemed. The conversion price was adjusted to \$210.59 (in dollars) per share based on the resolution approved at the stockholders' meeting in 2008.
- C. Under the terms of the convertible bonds, all bonds (redeemed, matured and converted) are retired and not to be re-issued.
- D. The bondholders may require the Company to redeem any bonds at face value after three years of issuance. The balance of the first domestic unsecured convertible bonds issued in year 2006 had been totally reclassified to "Current liabilities" at December 31, 2008.
- E. Under the terms of the convertible bonds, the rights and obligations of the new shares converted from convertible bonds are the same as the issued and outstanding common stock.
- F. The effective interest rate of the bonds was 2.32%.
- G. The Company issued its 2006 1st domestic convertible bonds payable. The fair value of convertible option in the amount of \$1,195,200 was separated from bonds payable at issuance date, and was recognized in "Capital reserve from stock warrants" in accordance with SFAS No. 36.

2) First unsecured corporate bonds issue in 2005

On September 14, 2005, following the approval from the SFB, the Company issued domestic unsecured bonds in the amount of \$11,500,000. The issuance and terms of domestic unsecured

bonds are summarized as follows:

<u>Type of bonds</u>	<u>Issuance date</u>	<u>Period</u>	<u>Amount</u>	<u>Nominal interest rate</u>	<u>Payment term</u>
Bond Aa to Af	September 2005	5 years	\$ 500,000	1.9800%	Principal is due at maturity. Interest is paid annually at simple interest rate.
Bond Ba to Bf	September 2005	5 years	\$ 500,000	1.9703%	Principal is due at maturity. Interest is paid semi-annually at compounded interest rate.
Bond Ca to Cf	September 2005	7 years	\$ 500,000	2.2500%	Principal is due at maturity. Interest is paid annually at simple interest rate.
Bond Da to De	September 2005	10 years	\$ 500,000	2.3700%	"

3) First debenture issue of 2008

On December 9, 2008, following the approval from the SFB, the Company issued domestic unsecured bonds in the amount of \$5,180,000. The issuance and terms of domestic unsecured bonds are summarized as follows:

<u>Issuance date</u>	<u>Period</u>	<u>Amount</u>	<u>Nominal interest rate</u>	<u>Payment term</u>
December 2008	3 years	\$ 5,180,000	2.5%	Principal is due at maturity. Interest is paid annually at simple interest rate.

(16) Long-term loans

<u>Institution</u>	<u>Loan period</u>	<u>December 31, 2008</u>	<u>Limit</u>
Mizuho Corporate Bank Ltd. etc. syndicated loan	2008/8/21~2011/8/21	\$ 17,548,000	(USD 535,000,000)
"	2008/9/11~2013/9/11	16,400,000	(USD 500,000,000)
		33,948,000	
Less: Current portion		-	
		<u>\$ 33,948,000</u>	
Interest rate		<u>4.2288%~4.8438%</u>	

- 1) The Company's subsidiary entered into a syndicated credit facility agreement with Mizuho Corporate Bank Ltd. as the lead bank and obtained a credit line in the amount of US\$1,035,000 thousand. The Company is the guarantor of the loan.
- 2) As the contract period of the loan is over twelve months, it was recognized as long-term loan.
- 3) The Group throughout the term of the syndicated term loan agreement shall maintain the following financial ratios, to be tested semi-annually and annually on an audited consolidated basis:

- A. The current ratio shall not be less than one hundred percent (100%).
- B. The ratio of total net debt to consolidated tangible net assets ratio shall not exceed seventy percent (70%).
- C. The interest coverage (income before income tax plus depreciation plus amortization plus interest expense divided by net interest expense) shall not be less than five hundred percent (500%).
- D. Net debt means debt minus cash and cash equivalents.
- E. The consolidated tangible net assets means the consolidated total assets of the Group minus goodwill acquired and minus goodwill through merger.
- F. Net interest expense means interest expense minus interest income.
- The Company has met all the above ratios as required under the syndicated loan agreement.

(17) Retirement plan

- 1) The Company has a non-contributory and funded defined benefit pension plan in accordance with the Labor Standards Law, covering all regular employees. The Company contributes monthly an amount equal to 2.1% of the employees' monthly salaries and wages to the retirement fund deposited with Bank of Taiwan, the trustee, under the name of the independent retirement fund committee.

- A) In 2007 and 2008, the related actuarial assumptions used to calculate the pension liability were as follows:

	<u>2007</u>	<u>2008</u>
Discount rate	3.50%	2.75%
Rate of increase in compensation	3.50%	3.00%
Expected return rate on plan assets	2.75%	1.50%

- B) Reconciliation of funded status:

	<u>December 31,</u>	
	<u>2007</u>	<u>2008</u>
Benefit obligation:		
Vested benefit obligation	(\$ 161,164)	(\$ 154,902)
Non-vested benefit obligation	(697,238)	(788,440)
Accumulated benefit obligation	(858,402)	(943,342)
Additional benefits based on future salary increases	(374,768)	(400,989)
Projected benefit obligation	(1,233,170)	(1,344,331)
Fair value of plan assets	<u>503,804</u>	<u>554,050</u>
Funded status	(729,366)	(790,281)
Unrecognized transition obligation	12,787	10,274
Unrecognized net pension gain	(77,291)	(38,307)
Accrued pension cost	<u>(\$ 793,870)</u>	<u>(\$ 818,314)</u>
Vested benefit	<u>\$ 184,993</u>	<u>\$ 181,572</u>

C) In 2007 and 2008, the details of net pension cost were as follows:

	<u>2007</u>	<u>2008</u>
Service cost	\$ 42,766	\$ 40,574
Interest cost	41,499	43,161
Expected return on plan assets	(12,468)	(13,855)
Unrecognized pension gain	(2,317)	-
Amortization of unrecognized net transition obligation	<u>2,513</u>	<u>2,513</u>
Net periodic pension cost	<u>\$ 71,993</u>	<u>\$ 72,393</u>

- 2) In accordance with the Labor Pension Act, the Company has a defined contribution employee retirement plan covering all domestic employees. The Company contributes monthly an amount based on 6% of employees' monthly salaries and wages to the employees' personal pension accounts with the Bureau of Labor Insurance. The pension expenses under this plan amounted to \$199,117 and \$230,239 for the years ended December 31, 2007 and 2008, respectively.
- 3) The subsidiaries in mainland China have defined contribution pension plans and contribute an amount monthly based on 8%~9% of employees' monthly salaries and wages to an independent fund administered by a government agency.
- 4) The overseas subsidiaries of the Company recognized pension expenses of \$2,817,566 and \$3,875,630 for the years ended December 31, 2007 and 2008, respectively.

(18) Capital stock

- 1) As of December 31, 2008, the Company's authorized capital amounted to 8,120 million shares (including 200 million shares reserved for stock warrants or bonds issued with detachable warrants) and the issued and outstanding common stocks were 7,414,623 thousand shares with a par value of \$10 (in dollars) per share.
- 2) Pursuant to the resolution adopted at the stockholders' meeting held on June 1, 1999, and after obtaining approval from the SFC, the Company issued 25 million units of global depository receipts (GDRs) in Europe, Asia and the USA, comprising 50 million shares of common stock (Deposited Shares). The main terms and conditions of GDRs are as follows:

A. Voting

Holders of GDRs have no right to directly exercise voting rights or attend the Company's stockholders' meeting, except when a motion is on the election of directors or supervisors. A holder or holders together holding at least 51% of the GDRs outstanding at the relevant record date of the stockholders' meeting can instruct the Depositary to vote in the same direction in respect of one or more resolutions to be proposed at the meeting.

B. Sale and withdrawal of GDRs

Under the current R.O.C. law, shares represented by the GDRs may not be withdrawn by holders of GDRs commencing three months after the initial issue of GDRs. A holder of a GDR may, provided that the Company has delivered to the custodian physical share certificates in respect of the Deposited Shares, request the Depository to sell or cause to be sold on behalf of such holder the shares represented by such GDRs.

C. Dividends

GDR holders are entitled to receive dividends to the same extent as the holders of common stock subject to the terms of the Deposit Agreement and applicable laws of the R.O.C.

D. As of December 31, 2008, 125,502,000 units of GDRs were outstanding, which represents 251,005 thousand shares of common stock.

(19) Share-based payment employee compensation plan

As of December 31, 2007 and 2008, the share-based payment transactions of Foxconn International Holdings Ltd. (Cayman), a subsidiary of the Company (listed on the Stock Exchange of Hong Kong), are set forth below:

<u>Type of arrangement</u>	<u>Grant date</u>	<u>Quantity granted</u>	<u>Contract period</u>	<u>Vesting conditions/ Restricted terms</u>
Employee stock options	July 25, 2005	435,599,000	1 ~ 6 years	Note (1)
"	September 12, 2007	2,400,000	1 ~ 6 years	"
"	September 12, 2007	300,000	1 ~ 3 years	"
Share appreciation rights	January 1, 2006	7,343,564	1 ~ 3 years	-
Other share-based payment plans	December 29, 2006	5,748,145	-	Note (2)
"	July 24, 2007	502,090	-	Note (3)
"	December 28, 2007	20,459,322	-	Note (4)

Note:

(1) Vested upon completion of certain years' service.

(2) Of the shares granted, 2,737,718 shares cannot be sold within one to three years from the grant date.

(3) Of the shares granted, 407,000 shares cannot be sold within one to two years from the grant date.

(4) Of the shares granted, 20,362,078 shares cannot be sold within one to three years from the grant date.

1) Employee stock options

For the stock options granted with the compensation cost accounted for using the fair value method, their fair value on the grant date is estimated using the Black-Scholes option-pricing model. The weighted-average parameters used in the estimation of the fair value are as follows:

<u>Grant date</u>	<u>Stock price (HK\$)</u>	<u>Exercise price (HK\$)</u>	<u>Expected price volatility</u>	<u>Expected dividend yield rate</u>	<u>Risk-free interest rate</u>	<u>Fair value per share (HK\$)</u>
July 25, 2005 ~	\$5.95~	\$6.06~	30%~36%	-	3.39%~	\$0.23 ~ 0.71
September 12, 2007	19.46	20.63			4.09%	

For the years ended December 31, 2007 and 2008, the weighted-average exercise price of employee stock options outstanding were US\$2.85 and US\$1.45 (in dollars) per share, respectively, and expenses incurred on employee stock options transactions were \$656,737 (US\$19,992 thousand) and \$472,982 (US\$15,001 thousand), respectively. Details of the employee stock options are set forth below:

<u>Employee Stock Options (In shares)</u>	<u>For the years ended December 31,</u>	
	<u>2007</u>	<u>2008</u>
Options outstanding at beginning of year	402,914,280	335,075,767
Options granted	2,700,000	-
Options exercised	(56,253,470)	(8,998,745)
Options revoked	(14,183,560)	(13,598,390)
Options cancelled	(101,483)	(4,378,440)
Options outstanding at end of year	<u>335,075,767</u>	<u>308,100,192</u>
Options exercisable at end of year	<u>59,349,607</u>	<u>113,306,262</u>

2) Share appreciation rights

For the years ended December 31, 2007 and 2008, the range of exercise price of stock appreciation rights outstanding were HK\$12 HK\$26.05 and HK\$3.96 HK\$26.05 (in dollars), respectively. As of December 31, 2007 and 2008, liabilities on stock appreciation rights were \$85,648 (US\$2,641 thousand) and \$43,099 (US\$1,314 thousand), respectively (shown as "Accrued expenses"). For the years ended December 31, 2007 and 2008, expenses incurred on stock appreciation rights transactions were \$46,253 (US\$1,408 thousand) and \$4,793 (US\$152 thousand), respectively.

3) Other share-based payment plans

These share-based payments were granted to employees gratuitously. For the years ended December 31, 2007 and 2008, expenses incurred on other share-based payment arrangements were \$63,729 (US\$1,940 thousand) and \$1,283,996 (US\$40,723 thousand), respectively.

(20) Capital reserve

- 1) Under the R.O.C. Company Law, the capital reserve can only be used to offset losses and/or to increase capital.
- 2) Under the R.O.C. SFB regulations, the Company may apply, once a year, to capitalize the capital reserves arising from paid-in capital in excess of par on the issuance of stocks for cash. The application shall be made after the year of the issuance, and the amount to be capitalized shall not exceed the prescribed amount.
- 3) Under the pooling of interest method, the balance of common stocks from the dissolved company, less the par value of equity securities issued for the merger, is classified as capital reserve.
- 4) Please see Note 4 (15) for information on “Capital reserve from stock warrants”.

(21) Retained earnings

- 1) In accordance with the Company’s Articles of Incorporation, net income must be distributed in the following order:
 - A. to cover prior years’ losses, if any;
 - B. as legal reserve equal to 10% of net income after tax and distribution pursuant to clause (A);
 - C. as any other legally required reserve;
 - D. to pay dividends on preferred shares;
 - E. to pay bonuses to employees at 8% of net income after tax and distribution pursuant to clauses (A) to (D); and
 - F. the remaining amount, if any, shall be distributed pursuant to the proposal of the board of directors in accordance with the Company’s dividend policy.

The Company’s dividend policy requires the board of directors to consider the Company’s budget for future capital expenditures and funding needs when proposing the distribution of earnings to the stockholders. At the regular meeting of the stockholders, the board of directors submits to the stockholders for approval the financial statements for the preceding fiscal year and any proposal for the distribution of dividends or any other distribution to stockholders from retained earnings, subject to compliance with the requirements mentioned above of the preceding fiscal year. Dividends may be distributed in the form of cash or shares, or a combination of both; provided, however, that dividends distributed in respect of any fiscal year in the form of shares shall not exceed two-thirds of total dividends to stockholders.

2) The details of the undistributed earnings were as follows:

	December 31,	
	2007	2008
Before new tax system was adopted	\$ 2,163,509	\$ 2,163,509
After new tax system was adopted		
Subjected to additional 10% corporate income tax	84,604,979	120,623,446
Not subjected to additional 10% corporate income tax	77,689,512	55,133,175
	<u>\$ 164,458,000</u>	<u>\$ 177,920,130</u>

3) The details of imputation system were as follows:

	December 31,	
	2007	2008
Balance of stockholders deductible tax account	<u>\$ 14,515,105</u>	<u>\$ 19,417,310</u>
	<u>2007 (Actual)</u>	<u>2008 (Estimated)</u>
Tax deductible rate of earnings distribution	<u>13.48%</u>	<u>14.91%</u>

4) The appropriation of 2006 and 2007 earnings had been resolved at the stockholders' meeting on June 8, 2007 and June 2, 2008, respectively. Details are summarized below:

	2006 earnings		2007 earnings	
	Amount	Dividends per share (in dollars)	Amount	Dividends per share (in dollars)
Legal reserve	\$ 5,982,083	\$ -	\$ 7,768,951	\$ -
Stock dividends	10,336,278	2.0	9,436,150	1.5
Cash dividends	15,504,416	3.0	18,872,300	3.0
Employees' stock bonus	890,000	-	1,802,420	-
Employees' cash bonus	1,357,017	-	3,791,224	-
	<u>\$34,069,794</u>	<u>\$ 5.0</u>	<u>\$41,671,045</u>	<u>\$ 4.5</u>

As of the report date, the distribution of 2008 earnings had not been approved by the board of directors. The earnings distribution information will be posted on the "Market Observation Post System" of the TSEC.

The Company issued 180,242,000 shares of common stock for employee bonuses, which represents 2.43% of the outstanding common shares on December 31, 2007. Taking into consideration the effect of employee bonuses and directors' and supervisors' remuneration, the pro forma earnings per share was \$9.72 (in dollars).

5) The estimated amounts of employees' bonus and directors' and supervisors' remuneration for 2008 are \$3,969,589 and \$0, respectively, based on a certain percentage (8% and 0%) of net income in 2008 after taking into account the legal reserve and other factors, as prescribed by

the Company's Articles of Incorporation. The calculation of shares of stock bonus distributed is based on the closing price of the Company's common stock at the previous day of 2009 stockholders' meeting after taking into account the effects of ex-rights and ex-dividends, and are recognized as operating costs or operating expenses for 2008. While, if the estimated amounts are different from the amounts approved by the stockholders subsequently, the difference is recognized as gain or loss in 2009.

(22) Earnings per common share

	For the year ended December 31, 2007				
	Amount		Number of shares (in thousands)	Earnings per common share	
	Before tax	After tax		Before tax	After tax
Basic earnings per share:					
Consolidated net income	\$101,137,416	\$84,688,360	7,413,788	\$ 13.64	\$ 11.42
Minority interest	(7,159,344)	(6,998,848)		(0.96)	(0.94)
Net income attributable to equity holders of the Company	<u>\$ 93,978,072</u>	<u>\$77,689,512</u>		<u>\$ 12.68</u>	<u>\$ 10.48</u>
Diluted earnings per share:					
Consolidated net income	\$101,137,416	\$84,688,360		\$ 13.49	\$ 11.29
Minority interest	(7,159,344)	(6,998,848)		(0.96)	(0.93)
Dilutive effect of stock equivalent:					
Convertible bonds	<u>398,400</u>	<u>298,800</u>	<u>85,474</u>	<u>0.05</u>	<u>0.04</u>
Net income attributable to equity holders of the Company	<u>\$ 94,376,472</u>	<u>\$77,988,312</u>	<u>7,499,262</u>	<u>\$ 12.58</u>	<u>\$ 10.40</u>
	For the year ended December 31, 2008				
	Amount		Number of shares (in thousands)	Earnings per common share	
	Before tax	After tax		Before tax	After tax
Basic earnings per share:					
Consolidated net income	\$ 72,593,680	\$56,689,986	7,413,788	\$ 9.79	\$ 7.65
Minority interest	(2,224,236)	(1,556,811)		(0.30)	(0.21)
Net income attributable to equity holders of the Company	<u>\$ 70,369,444</u>	<u>\$55,133,175</u>		<u>\$ 9.49</u>	<u>\$ 7.44</u>

	For the year ended December 31, 2008				
	Amount		Number of shares (in thousands)	Earnings per common share	
	Before tax	After tax		Before tax	After tax
Diluted earnings per share:					
Consolidated net income	\$ 72,593,680	\$56,689,986		\$ 9.59	\$ 7.49
Minority interest	(2,224,236)	(1,556,811)		(0.29)	(0.21)
Dilutive effect of stock equivalent:					
Convertible bonds	\$ 398,400	\$ 298,800	85,474	\$ 0.05	\$ 0.04
Employees' stock bonus	-	-	72,878	-	-
Net income attributable to equity holders of the Company	<u>\$ 70,767,844</u>	<u>\$55,431,975</u>	<u>7,572,140</u>	<u>\$ 9.35</u>	<u>\$ 7.32</u>

- 1) The number of shares had retroactively been adjusted by the stock dividends and the stock bonus to employees as of December 31, 2008.
- 2) Effective January 1, 2008, as employees' bonus could be distributed in the form of stock, the diluted EPS computation shall include those estimated shares that would increase from employees' stock bonus issuance in the calculation of the weighted-average number of common shares outstanding during the reporting year, taking into account the dilutive effects of stock bonus on potential common shares; whereas, basic EPS shall be calculated based on the weighted-average number of common shares outstanding during the reporting year that include the shares of employees' stock bonus for the appropriation of prior year earnings, which have already been resolved at the stockholders' meeting held in the reporting year.

(23) Personnel, depreciation and amortization expenses

	For the years ended December 31,	
	2007	2008
<u>Cost of sales</u>		
Personnel expenses		
Salaries	\$ 45,436,375	\$ 57,139,949
Labor and health insurances	2,347,772	2,250,263
Pension	2,016,311	2,664,961
Others	908,728	1,154,226
	<u>\$ 50,709,186</u>	<u>\$ 63,209,399</u>
Depreciation	<u>\$ 17,488,928</u>	<u>\$ 22,440,332</u>
Amortization	<u>\$ 3,625,904</u>	<u>\$ 2,635,658</u>

	<u>For the years ended December 31,</u>	
	<u>2007</u>	<u>2008</u>
<u>Operating expenses</u>		
Personnel expenses		
Salaries	\$ 29,617,271	\$ 38,268,718
Labor and health insurances	1,576,213	2,152,206
Pension	1,072,365	1,513,301
Others	592,345	565,654
	<u>\$ 32,858,194</u>	<u>\$ 42,499,879</u>
Depreciation	<u>\$ 4,506,762</u>	<u>\$ 5,570,788</u>
Amortization	<u>\$ 546,415</u>	<u>\$ 2,089,353</u>

5. RELATED PARTY TRANSACTIONS

1) Names of related parties and their relationship with the Company

<u>Names of related parties</u>	<u>Relationship with the Company</u>
Foxconn Technology Co., Ltd. and subsidiaries (FTCS)	Investee company accounted for under the equity method
Pan International Industrial Corporation and subsidiaries (PIICS)	"
Foxconn Advanced Technology, Ltd. - Cayman (FATS-Cayman)	An indirectly-owned investee company accounted for under the equity method
Foxsemicon Integrated Technology and subsidiaries (FITI)	"
CyberTAN Technology, Inc. (CyberTAN)	"
Cheng Uei Precision Industry Co., Ltd. (CUPC)	The chairman is a brother of the Company's chairman
InnoLux Display Co., Ltd. and subsidiaries (InnoLuxS)	Same major shareholder

Except for transactions with the above related parties, there were no other material transactions between related parties and the Company for the year ended December 31, 2008.

2) Significant transactions and balances with related parties

A. Sales

	<u>For the years ended December 31,</u>	
	<u>2007</u>	<u>2008</u>
FTCS	\$ 54,213,883	\$ 68,434,713
InnoLuxS	7,263,360	6,460,015
CyberTAN	4,757,498	6,605,925
Others	1,767,664	1,943,690
	<u>\$ 68,002,405</u>	<u>\$ 83,444,343</u>

The sales prices and payment terms to related parties were not significantly different from sales to third parties. For other related party transactions, prices and terms were determined in accordance with mutual agreements.

B. Purchases

	For the years ended December 31,	
	2007	2008
FTCS	\$ 20,164,212	\$ 19,235,684
FATS-Cayman	9,009,595	6,678,201
PIICS	8,197,551	9,226,402
InnoLuxS	7,085,457	11,278,471
CUPS	2,186,384	3,720,172
CyberTAN	1,057,824	374,780
Others	28,896	78,967
	<u>\$ 47,729,919</u>	<u>\$ 50,592,677</u>

The purchase prices and payment terms to related parties were not significantly different from purchases from third parties. For other related party transactions, prices and terms were determined in accordance with mutual agreements.

C. Accounts receivable - related parties

	December 31,	
	2007	2008
FTCS	\$ 6,457,719	\$ 9,792,176
InnoLuxS	1,875,011	2,208,612
CyberTAN	598,699	1,965,833
Others	407,945	378,552
	<u>9,339,374</u>	<u>14,345,173</u>
Less: Allowance for doubtful accounts	(196,912)	(207,011)
	<u>\$ 9,142,462</u>	<u>\$ 14,138,162</u>

D. Other receivables

The Group purchased materials on behalf of FTCS and FITI, etc. As of December 31, 2007 and 2008, other receivables amounted to \$698,535 and \$1,441,541, respectively.

E. Accounts payable - related parties

	December 31,	
	2007	2008
FTCS	\$ 7,191,102	\$ 3,764,894
PIICS	3,380,699	3,208,836
FATS-Cayman	3,330,825	2,894,102
InnoLuxS	2,333,564	1,473,851
CUPC	1,170,195	2,255,781
Others	194,557	60,482
	<u>\$ 17,600,942</u>	<u>\$ 13,657,946</u>

F. Property transactions

For the year ended December 31, 2007				
<u>Counterparty</u>	<u>Transaction</u>	<u>Sales / purchase price</u>	<u>Gain on disposal</u>	<u>Receivables / (payables) at December 31, 2007</u>
FTCS, InnoLuxS and FAT - Cayman	Sale of fixed assets	\$ 2,120,069	\$ 7,661	\$ 17,049
FITI and FTCS	Acquisition of fixed assets	458,012	- (94,368)
For the year ended December 31, 2008				
<u>Counterparty</u>	<u>Transaction</u>	<u>Sales / purchase price</u>	<u>Gain on disposal</u>	<u>Receivables / (payables) at December 31, 2008</u>
FTCS, InnoLuxS, FAT – Cayman, FITI and PIICS	Sale of fixed assets	\$ 277,037	\$ 822	\$ 31,554
FITI and FTCS	Acquisition of fixed assets	325,350	- (2,278)
PIICS and InnoLuxS	Sale of stocks	260	-	-

G. Guarantees

In July 2008, the Company's subsidiary, Foxconn (Far East) Ltd., entered into a syndicated credit facility agreement with Mizuho Corporate Bank Ltd. as the lead bank and obtained a credit line in the amount of US\$1,035,000 thousand. The Company is the guarantor of the loan.

H. The following sets forth the salaries/rewards information of key management, such as directors, supervisors, general manager, vice general manager, etc:

	For the years ended December 31,	
	2007	2008
Salaries	\$ 106,817	\$ 128,219
Bonuses	129,975	54,042
Service execution fees	-	1,440
Earnings distribution	126,800	79,152
	<u>\$ 363,592</u>	<u>\$ 262,853</u>

- (A) Salaries include regular wages, special responsibility allowances, pensions, severance pay, etc.
- (B) Bonuses include various bonuses and rewards.
- (C) Service execution fees include travel allowances, special expenditures, various allowances, dorms & vehicles offering, etc.
- (D) Earnings distribution represents directors' and supervisors' remuneration and employees' bonus accrued in current year.
- (E) The relevant information above is shown in the Company's annual report.

6. PLEDGED ASSETS

As of December 31, 2007 and 2008, the assets pledged as collateral were as follows:

Assets	Nature	December 31,	
		2007	2008
		Book value	Book value
Fixed deposits and cash (shown as other financial assets non-current)	Bond deposit as security for court proceedings, security deposit for employment of foreign employees and custom's deposits.	\$ 604,845	\$ 119,201
Other asset -Refundable deposit	Short-term loans and custom's deposits	217,068	184,047
		<u>\$ 821,913</u>	<u>\$ 303,248</u>

7. COMMITMENTS AND CONTINGENT LIABILITIES

As of December 31, 2008, the Group's significant commitments and contingent liabilities were as follows:

- The Company entered into several contracts for the acquisition of machinery and construction of research center with total value of approximately \$48,206 million. As of December 31, 2008, the unpaid balance on these contracts amounted to \$5,592 million.
- As of December 31, 2008, future minimum lease payments for a factory and employees' apartment were approximately \$2,071 million as follows:

Year	Amount
2009	\$ 871,719
2010	473,458
2011	315,177
2012	178,792
2013 and thereafter	232,035
	<u>\$ 2,071,181</u>

- The Group entered into an agreement with Qualcomm Incorporated regarding mobile phone use right. Under the agreement, the Group shall pay royalties based on sales volume of the related products.
- Mondis filed a lawsuit and an injunction with the Court against the Company, alleging infringement, among others, of its patent on panel display, and claimed indemnities for its losses. The Company has appointed a legal counsel to attend to this case. As of March 3, 2009, based on the opinion of the Company's legal counsel, the ultimate outcome of the lawsuit and the damages that the Company may incur cannot be reasonably estimated as the litigation is still under trial and investigation by the Court and competent authorities in the U.S.A.
- Spansion Inc. requested the International Trade Commission (ITC) to conduct an investigation alleging that the Company infringed its patent related to Samsung flashing ICs that were assembled into the Company's products. Spansion Inc. requested ITC to issue an injunction to

ban the Company's export of the related products to the United States. As of March 3, 2009, based on the opinion of the Company's legal counsel, the ultimate outcome of the lawsuit and the damages that the Company may incur cannot be reasonably estimated as the litigation is still under trial and investigation by ITC.

8. SIGNIFICANT CATASTROPHE

None.

9. SUBSEQUENT EVENTS

On January 12, 2009, following the approval from the SFB, the Company issued domestic unsecured bonds in the amount of \$6,820,000.

10. OTHERS

1) Financial statement presentation:

Certain accounts in the 2007 consolidated financial statements were reclassified to conform with the 2008 consolidated financial statement presentation.

2) Fair value of financial instruments

<u>Non-derivative financial instruments</u>	<u>December 31, 2007</u>			
	<u>Book value</u>	<u>Fair value</u>		<u>Note</u>
		<u>Quotation in an active market</u>	<u>Estimated using a valuation technique</u>	
<u>Assets:</u>				
Financial assets with fair values equal to book values	\$412,756,957	\$ -	\$412,756,957	A
Open-end funds	72,280	72,280	-	B
Available-for-sale financial assets	33,206,438	33,206,438	-	C
Financial assets carried at cost - non-current	1,680,237	-	-	D
Refundable deposits	540,415	-	526,618	E
<u>Liabilities:</u>				
Financial liabilities with fair values equal to book values	443,902,905	-	443,902,905	A
Bonds payable	28,759,958	-	27,738,739	F
<u>Derivative financial instruments</u>				
<u>Assets:</u>				
Futures contracts	55,699	-	55,699	G
Forward exchange contracts	187	-	187	G
<u>Liabilities:</u>				
Forward exchange contracts	3,213	-	3,213	G

Non-derivative financial instruments	December 31, 2008			
	Book value	Fair value		Note
		Quotation in an active market	Estimated using a valuation technique	
Assets:				
Financial assets with fair values equal to book values	\$384,842,813	\$ -	\$384,842,813	A
Open-end funds	15,000	15,000	-	B
Available-for-sale financial assets	8,780,606	8,780,606	-	C
Financial assets carried at cost - non-current	1,267,747	-	-	D
Refundable deposits	-	-	-	E
Liabilities:				
Financial liabilities with fair values equal to book values	421,837,828	-	421,837,828	A
Long-term bonds payable	16,680,000	-	16,671,064	F
Current bonds payable	17,658,358	-	17,107,663	F
Derivative financial instruments				
Assets:				
Futures contracts	127,821	-	127,821	G
Forward exchange contracts	9,568	-	9,568	G
Liabilities:				
Forward exchange contracts	251,391	-	251,391	G
Off-balance sheet financial instruments				
Guarantees	34,117,740 (USD1,035,000 thousand)	-	34,117,740 (USD1,035,000 thousand)	H

The methods and assumptions used to estimate the fair values of the above financial instruments are summarized below:

- A. For short-term instruments, the fair values were determined based on their carrying values because of the short maturities of the instruments. This method was applied to cash and cash equivalents, notes and accounts receivable, other receivables, other financial assets-current, short-term loans, notes and accounts payable, accrued expenses, income tax payable, other payables and other current liabilities.
- B. For Open-end funds, the fair values were determined based on the funds' net asset at December 31, 2007 and 2008.

- C. Available-for-sale financial assets are regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's-length basis. If the market for a financial instrument is not active, an entity establishes fair value by using a valuation technique. The fair values of available-for-sale financial assets are based on the quotation in the active markets at December 31, 2007 and 2008.
- D. As financial assets carried at cost are not quoted in an active market, its fair value cannot be measured reliably.
- E. The fair value of refundable deposits and other financial assets-non-current is based on the discounted value of expected future cash inflow, and the discount rate is based on the fixed rate of the one year time deposit given by the Post Office at December 31, 2007 and 2008.
- F. The fair value of convertible bonds issued after December 31, 2005 is based on the present value of expected cash flow amount. The discount rate is the effective interest rate of convertible bonds in the current market, whose contractual terms are similar to those of convertible bonds issued by the Company.
- G. The fair values of derivative financial instruments which include unrealized gain or loss on unsettled contracts were determined based on the amounts to be received or paid assuming that the contracts were settled as of the reporting date.
- H. The fair value of guarantees was based on the contract amounts.

3) Credit risk of off-balance sheet financial instruments

Please see Note 5. 2) G.

4) Financial risk control

A. The Group employs a comprehensive risk management and control system to clearly identify, measure and control the various kinds of financial risk it faces, including market risk, credit risk, liquidity risk and cash flow risk. Except for market risk, which is controlled by outside factors, the remainder of the foregoing types of risk can be controlled internally or removed from business processes. Therefore, the goal in managing each of these risks is to reduce them to zero.

As for market risk, the goal is to protect its overall position through strict recommendation, execution and audit processes, and proper consideration of a) long-term trends in the external economic/financial environment, b) internal operating conditions, and c) the actual effects of market fluctuations.

B. The risk management and control system of the Group is administered within a framework of stratified responsibility: The board of directors formulates and approves handling procedures; the senior officers designated by the board make regular and unscheduled assessments of management procedures, organizational structure, transaction flows, and whether there are any abnormal circumstances; the legal department reviews and examines transaction

agreements; the accounting department makes recommendations with regard to transactions and is responsible for carrying them out; and the audit department undertakes audits. Under this framework, with its strict adherence to proper segregation of duties and adequate internal control procedures, the Group seeks to minimize the potential adverse effects on the Group's financial performance.

5) Material financial risk information

A. Market risk

(1) Foreign exchange risk:

The Group's major purchase and sale transactions are conducted in USD. The change of fair value will be caused by foreign exchange rate fluctuations, however, the amounts and periods of the Group's accounts receivable and accounts payable are equivalent, so the market risk could be offset. If the gap is raised, the Group would adopt the forward contract to hedge the risk, so the Group estimates there would be no material risk.

(2) Price risk:

The Group is exposed to equity securities price risk because of investments held by the Group and classified on the consolidated balance sheet either as available-for-sale or at fair value through profit or loss. The Group sets limits to control the transaction volume and stop-loss amount of derivatives to reduce its price market risk.

(3) Futures market risk:

The Group is exposed to price risk because of investments in futures market instruments, which have fair value in the active market. The Group sets limits to control the transaction volume and stop-loss amount of derivatives to reduce its futures market risk.

(4) Interest rate risk:

The long-term bonds issued by the Group all have fixed interest rates, so there is no interest rate risk.

(5) Stock exchange market:

The domestic convertible bonds issued by the Company are compound instruments, which include the conversion option, call option, put option, and zero-coupon bonds. Except that the fair value of the bonds would be changed due to changes in market interest rate, their fair value is mainly subject to the changes in the Company's stock price. The Company could exercise the call option to mitigate its stock market risk adequately.

B. Credit risk

(1) Receivables:

With respect to receivables of the Group, most of the debtors are well-known international companies with very good credit standing. Moreover, the adequacy of the allowance for doubtful accounts is assessed regularly, so there is no material credit risk.

(2) Financial market:

The long-term exchange rate and futures transactions entered into by the Group are done with financial institutions with very good credit standing. Consequently, the likelihood that credit risk would occur is low.

(3) Asset transactions:

The Group has investments in available-for-sale financial assets and financial assets that are measured at cost. Although the potential for credit risk does arise, there is an open, active market for available-for-sale financial assets. For financial assets measured at cost, the Group performs regular impairment testing. Moreover, the counterparties in the transactions had their credit standing evaluated, so these transactions are not expected to lead to material credit risk.

C. Liquidity risk

(1) Receivables:

As for receivables of the Group, the main debtors are well-known international companies with very good credit standing. There are no overdue receivables with maturities over one year. Therefore, there is no material liquidity risk.

(2) Financial assets:

For available-for-sale financial assets held by the Group, there is an active market that allows these investments to be readily converted into certain amount of cash approximate to their fair values. The liquidity risk exposure is low. As for financial assets measured at cost, the liquidity risk is high as there is no active market. However, since the shareholding percentages are not high, they do not constitute major investments. Therefore, no material liquidity risk is expected.

(3) Foreign exchange transactions:

For forward foreign exchange transactions entered into by the Group, the targets of the transactions are all currencies traded on international foreign exchange markets with large trading volumes and high number of traders bidding. Trading is active with high liquidity. Therefore, no material liquidity risk is expected.

(4) Futures transactions:

For futures transactions entered into by the Group, orders are placed in the New York or Chicago or London futures exchanges. The numbers of available futures targets and international market participants are adequate to facilitate easy entry and exit. Therefore, no liquidity risk is expected.

(5) Working capital:

The Group has good operating and credit conditions, and has sufficient working capital, so it expects no significant liquidity risk arising from insufficient capital to meet contract obligations.

(6) Convertible bonds:

Under the terms of the domestic convertible bonds issued by the Company, the bondholders have the right to require the Company to redeem any bonds at face value on November 10, 2009. If on that day, the closing price of the Company's common shares is lower than the conversion price, then the probability that the bondholders would convert bonds into common shares will be low, and whether the bondholders may exercise put option or not still depends on the conversion value at that time. The maturity date of the bonds is November 10, 2011. If the bondholders exercise put option, they have to give up the conversion value of next two years. If the conversion value is not zero, the conversion value shall be higher than face value of the bonds, then the bondholders may not require the Company to redeem bonds at face value; on the contrary, if the conversion value is almost zero, the conversion value shall be equal to face value of the bonds, then the bondholders may require the Company to redeem bonds at face value.

The Company expects no significant liquidity risk would arise as it has sufficient working capital to meet the funding requirements for bonds redemption even if all bonds outstanding are redeemed.

D. Cash flow risk from movements in interest rates

(1) Long-term liabilities:

The Group does not have long-term financial assets and liabilities that are affected by interest rate changes. Therefore, there should be no material cash flow risk from movements in interest rates.

(2) Foreign exchange transactions:

The forward foreign currency transactions entered into by the Group are for the purpose of hedging against short-term gaps in positions after offsetting foreign currency assets and liabilities. As such, the amounts in the transactions are minimal and their duration is short. Moreover, because of opposite foreign currency outflows and inflows, a significant need for foreign funds is not expected. Therefore, no material foreign exchange-type cash flow risk is expected from movements in interest rates.

(3) Financial assets:

As the investments of the Group are not interest-rate type products, there is no cash flow risk from movements in interest rates.

6) Elimination of intercompany transactions

For the year ended December 31, 2007		
<u>Transactions</u>	<u>Companies</u>	<u>Amount</u>
1) Elimination of long-term investments and stockholders' equity	Hyield Venture Capital Co., Ltd. Foxconn Holding Ltd. Foxconn (Far East) Ltd.-Cayman Bao Shin International Investment Co., Ltd. Hon Chi International Investment Co., Ltd. Hon Yuan International Investment Co., Ltd. Lin Yih International Investment Co., Ltd. Premier Image Technology (H.K), Limited Hon Hai/Foxconn Logistics California LLC. Hon Hai/Foxconn Logistics Texas LLC. Premier Image Technology (Japan), Limited Foxconn Singapore (PTE) Ltd. Foxconn International Inc. Ambit Microsystems Holding Corp. Ambit International Ltd. Margini Holdings Ltd. Unique Logistics Ltd. Image & Vision Investment Corp.	\$ 242,264,794
2) Elimination of intercompany receivables, payables and prepayments		
A. Accounts receivable, accounts payable and other receivables/payables	Foxconn Holding Ltd. Foxconn (Far East) Ltd.-Cayman Hon Hai/Foxconn Logistics California LLC. Hon Hai/Foxconn Logistics Texas LLC. Foxconn Singapore (PTE) Ltd. Ambit Microsystems Inc. Ambit International Ltd. Unique Logistics Ltd. Premier Image Technology (H.K), Limited	60,776,579
B. Prepayments	Foxconn (Far East) Ltd.-Cayman Hon Hai/Foxconn Logistics Texas LLC. Hon Hai/Foxconn Logistics California LLC. Foxconn Holding Ltd.	9,446,109

For the year ended December 31, 2007		
Transactions	Companies	Amount
3) Elimination of profit and loss		
A. Sales and purchases	Foxconn (Far East) Ltd.-Cayman Foxconn Holding Ltd. Foxconn Singapore (PTE) Ltd. Hyield Venture Capital Co., Ltd. Unique Logistics Ltd. AMB Logistics Ltd. Ambit International Ltd. Premier Image Technology (H.K), Limited	\$ 313,760,567
B. Logistics expenses	Foxconn (Far East) Ltd.-Cayman Hon Hai/Foxconn Logistics California LLC. Hon Hai/Foxconn Logistics Texas LLC.	1,663,196
C. Processing revenue and expenses	Foxconn (Far East) Ltd.-Cayman	94,224,196
D. Unrealized intercompany gross profit	Foxconn (Far East) Ltd.-Cayman Foxconn Holding Ltd. Premier Image Technology (H.K), Limited	1,246,731

For the year ended December 31, 2008		
Transactions	Companies	Amount
1) Elimination of long-term investments and stockholders' equity	Hyield Venture Capital Co., Ltd. Foxconn Holding Ltd. Foxconn (Far East) Ltd.-Cayman Bao Shin International Investment Co., Ltd. Hon Chi International Investment Co., Ltd. Hon Yuan International Investment Co., Ltd. Lin Yih International Investment Co., Ltd. Premier Image Technology (H.K), Limited Hon Hai/Foxconn Logistics California LLC. Hon Hai/Foxconn Logistics Texas LLC. Altus Technology Inc. Foxconn Singapore (PTE) Ltd. Ambit International Ltd. Margini Holdings Ltd. Image & Vision Investment Corp.	\$ 280,263,014

For the year ended December 31, 2008		
Transactions	Companies	Amount
2) Elimination of intercompany receivables, payables and prepayments		
A. Accounts receivable, accounts payable and other receivables/payables	Foxconn Holding Ltd. Foxconn (Far East) Ltd.-Cayman Bao Shin International Investment Co., Ltd. Hyield Venture Capital Co., Ltd. Hon Hai/Foxconn Logistics California LLC. Hon Hai/Foxconn Logistics Texas LLC. Foxconn Singapore (PTE) Ltd. Ambit International Ltd. Margini Holdings Ltd. Premier Image Technology (H.K), Limited	\$ 99,967,175
B. Prepayments	Foxconn (Far East) Ltd.-Cayman Foxconn Holding Ltd.	6,621,215
3) Elimination of profit and loss		
A. Sales and purchases	Foxconn (Far East) Ltd.-Cayman Foxconn Holding Ltd. Foxconn Singapore (PTE) Ltd. Hyield Venture Capital Co., Ltd. Bao Shin International Investment Co.,Ltd. Ambit International Ltd. Hon Chi International Co., Ltd. Altus Technology Inc. Margini Holdings Ltd.	496,409,986
B. Logistics expenses	Foxconn (Far East) Ltd.-Cayman Hon Hai/Foxconn Logistics California LLC. Hon Hai/Foxconn Logistics Texas LLC.	1,568,459
C. Processing revenue and expenses	Foxconn (Far East) Ltd.-Cayman	107,303,508
D. Unrealized intercompany gross profit	Foxconn (Far East) Ltd.-Cayman Foxconn Holding Ltd. Ambit International Ltd. Premier Image Technology (H.K), Limited	1,294,984

11. SEGMENT INFORMATION

- 1) Financial information by industry: The Company operates in one single industry, the electronics industry. Accordingly, no segment industry information is presented.
- 2) Financial information by geographic area: In 2007 and 2008, the financial information of the Company by geographic area is shown below:

	2007			Total
	Territories outside Taiwan	Taiwan	Elimination	
Income from non-affiliated customers	\$ 659,589,744	\$1,056,185,296	\$ -	\$1,715,775,040
Income of the Company and consolidated subsidiaries	<u>314,352,162</u>	<u>348,444,624</u>	<u>(662,796,786)</u>	<u>-</u>
Total income	<u>\$ 973,941,906</u>	<u>\$1,404,629,920</u>	<u>(\$662,796,786)</u>	<u>\$1,715,775,040</u>
Operating and non-operating income	<u>\$ 66,513,582</u>	<u>\$ 40,560,620</u>	<u>(\$ 498,604)</u>	\$ 106,575,598
Investment income				3,856,058
Other expenses				(3,880,968)
Interest expense				(5,413,272)
Income before income tax				<u>\$ 101,137,416</u>
Identifiable assets	<u>\$ 376,958,867</u>	<u>\$ 321,168,286</u>	<u>(\$118,236,622)</u>	\$ 579,890,531
Long-term investments				30,314,442
Other assets				<u>257,092,082</u>
Total assets				<u>\$ 867,297,055</u>

	2008			
	Territories outside Taiwan	Taiwan	Elimination	Total
Income from non-affiliated customers	\$ 689,842,190	\$1,272,628,197	\$ -	\$1,962,470,387
Income of the Company and consolidated subsidiaries	<u>531,692,651</u>	<u>349,839,023</u>	<u>(881,531,674)</u>	<u>-</u>
Total income	<u>\$1,221,534,841</u>	<u>\$1,622,467,220</u>	<u>(\$881,531,674)</u>	<u>\$1,962,470,387</u>
Operating and non-operating income	<u>\$ 54,682,376</u>	<u>\$ 31,064,462</u>	<u>(\$ 461,390)</u>	\$ 85,285,448
Investment income				1,967,223
Other expenses				(7,961,109)
Interest expense				(6,697,882)
Income before income tax				<u>\$ 72,593,680</u>
Identifiable assets	<u>\$ 391,616,629</u>	<u>\$ 323,337,502</u>	<u>(\$156,204,667)</u>	\$ 558,749,464
Long-term investments				25,654,728
Other assets				294,216,982
Total assets				<u>\$ 878,621,174</u>

3) Information on export sales: In 2007 and 2008, the export sales of the Company were as follows:

Destination	2007	2008
Americas	\$ 556,916,543	\$ 645,226,500
Asia	731,762,916	809,846,422
Europe	<u>402,713,845</u>	<u>482,432,852</u>
	<u>\$ 1,691,393,304</u>	<u>\$ 1,937,505,774</u>

4) Major customers information:

Sales to a single customer which represent over 10% of net operating revenues were:

	Customers	Sales amount	% of net sales
2007	Customer C	<u>\$ 306,085,000</u>	<u>18</u>
	Customer A	<u>\$ 295,674,000</u>	<u>17</u>
	Customer E	<u>\$ 190,219,000</u>	<u>11</u>
2008	Customer C	<u>\$ 353,717,000</u>	<u>18</u>
	Customer A	<u>\$ 310,425,000</u>	<u>16</u>
	Customer E	<u>\$ 304,829,000</u>	<u>16</u>