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

JUNE 30, 2008 AND 2009

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 the Guidelines for Securities Issuers' Financial Reporting promulgated by the Securities and Futures Commission of the Republic of China.

REVIEW REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

To The Board of Directors and Stockholders:
Hon Hai Precision Industry Co., Ltd.

We have reviewed the accompanying consolidated balance sheets of Hon Hai Precision Industry Co., Ltd. and its subsidiaries as of June 30, 2008 and 2009, and the related consolidated statements of income, of changes in stockholders' equity and of cash flows for the six-month periods then ended, expressed in thousands of New Taiwan dollars. These financial statements are the responsibility of the Company's management. Our responsibility is to issue a conclusion on these financial statements based on our reviews. We did not review the financial statements of certain consolidated subsidiaries which statements reflect total assets of $204,278,023,000 and $173,622,645,000, constituting 23.34% and 19.27% of the consolidated total assets as of June 30, 2008 and 2009, respectively, and total revenues of $150,781,406,000 and $106,045,007,000, constituting 18.59% and 13.06% of the consolidated total operating revenues for the six-month periods then ended, respectively. Those statements were reviewed by other auditors, whose reports thereon have been furnished to us, and our conclusion expressed herein, insofar as it relates to the amounts included for these subsidiaries, is based solely on the reports of the other auditors.

Except as explained in the following paragraph, we conducted our reviews in accordance with the Statement of Auditing Standards No. 36, "Review of Financial Statements" in the Republic of China. A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in the Republic of China, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

As described in Notes 1(2) and 4(8), the financial statements of certain consolidated subsidiaries and long-term equity investments accounted for under the equity method were not reviewed by independent accountants, which statements reflect total assets (including long-term equity investments balance) of $182,913,110,000 and $224,115,144,000, constituting 20.9% and 24.88% of the consolidated total assets, and total liabilities of $57,392,449,000 and $80,670,377,000, constituting 11.37% and 17.03% of the consolidated total liabilities as of June 30, 2008 and 2009, respectively, and total net income (including investment income accounted for under the equity method) of $8,026,931,000 and $4,365,112,000, constituting 27.13% and 15.45% of the consolidated net income for the six-month periods then ended, respectively.

Based on our reviews and the reports of other auditors, except for the effect of such adjustments, if any, as might have been determined to be necessary had the financial statements of certain consolidated subsidiaries and long-term investments been reviewed as explained in the preceding paragraph and 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, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be 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, 2009 and 2008, the Company and subsidiaries adopted the amendments to R.O.C. SFAS No. 10, “Accounting for Inventories” and EITF 96-052, "Accounting for Employees' Bonuses and Directors' and Supervisors' Remuneration", prescribed by the R.O.C. Accounting Research and Development Foundation, respectively.

PricewaterhouseCoopers, Taiwan
August 26, 2009

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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
JUNE 30,
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)
(UNAUDITED)

	2008	2009
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4 (1))	$ 177,434,582	$ 125,055,296
Financial assets at fair value through profit or loss - current (Note 4 (2))	156,020	374,131
Available-for-sale financial assets - current (Note 4 (3))	1,177,721	1,177,962
Notes receivable, net (Notes 4 (4))	2,097,233	1,536,868
Accounts receivable, net (Notes 4 (4))	182,669,089	245,834,055
Accounts receivable, net - related parties (Note 5)	10,143,971	15,635,304
Other receivables (Notes 4(5) and 5)	16,161,068	16,933,789
Inventories, net (Notes 3 and 4 (6))	180,610,415	167,106,229
Prepayments (Note 5)	6,107,783	4,584,239
Deferred income tax assets - current (Note 4 (14))	2,117,103	2,571,345
	578,674,985	580,809,218
Funds and Investments		
Available-for-sale financial assets - non-current (Note 4 (3))	16,044,449	13,652,341
Financial assets carried at cost - non-current (Note 4 (7))	1,937,367	1,324,699
Long-term equity investments accounted for under the equity method (Note 4 (8))	29,793,218	28,623,380
Other financial assets - non-current (Note 6)	6,174,331	85,145
	53,949,365	43,685,565
Property, Plant and Equipment (Notes 4 (9) and 5)		
Cost		
Land	3,902,601	3,703,839
Buildings and improvements	67,514,499	100,691,528
Machinery	133,621,859	154,980,995
Molding equipment	2,997,105	2,847,581
Testing equipment	17,244,799	19,678,538
Office equipment	11,197,308	12,776,776
Tooling equipment	2,701,037	3,093,551
Other equipment	21,632,696	27,339,279
Total cost	260,811,904	325,112,087
Less: Accumulated depreciation	(76,924,534)	(105,281,210)
Accumulated impairment	(556,567)	(2,565,150)
Construction in progress and prepayments for equipment	35,427,911	29,215,002
	218,758,714	246,480,729
Intangible Assets (Note 4 (10))		
Goodwill	2,135,809	1,345,627
Other intangible assets	-	653,575
	2,135,809	1,999,202
Other Assets		
Deferred charges	4,174,125	5,175,561
Other assets - other (Notes 4(11) and 6)	17,520,550	22,763,368
	21,694,675	27,938,929
TOTAL ASSETS	$ 875,213,548	$ 900,913,643

(continued)

HON HAI PRECISION INDUSTRY CO., LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (CONTINUED)
JUNE 30,
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)
(UNAUDITED)

	2008	2009
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Short-term loans (Note 4 (12))	$ 147,845,881	$ 43,913,266
Financial liabilities at fair value through profit or loss - current (Note 4 (2))	43,142	52,153
Accounts payable	227,367,825	257,404,594
Accounts payable - related parties (Note 5)	14,163,414	18,547,701
Income tax payable (Note 4 (14))	12,373,716	10,677,771
Accrued expenses (Notes 4 (13)(19))	26,614,618	35,631,509
Dividends payable (Note 4 (21))	18,872,300	8,156,086
Payables for equipment (Note 5)	3,582,938	3,550,164
Other payables (Note 4 (21))	3,047,221	6,351,030
Receipts in advance	4,596,583	4,033,596
Long-term liabilities - current portion (Note 4 (15))	-	17,855,921
Accrued warranty liabilities	4,372,826	4,619,446
Other current liabilities	1,848,152	3,473,030
	464,728,616	414,266,267
Long-term Liabilities		
Bonds payable (Note 4 (15))	28,957,521	16,680,000
Long-term loans (Note 4 (16))	30,708	33,958,350
	28,988,229	50,638,350
Other Liabilities		
Reserve for retirement plan (Note 4 (17))	1,017,141	1,057,958
Deferred income tax liabilities - non-current (Note 4 (14))	7,835,926	5,626,818
Other liabilities - other	2,418,521	2,149,772
	11,271,588	8,834,548
Total liabilities	504,988,433	473,739,165
Stockholders' Equity		
Stockholders' Equity of Parent Company		
Capital stock (Note 4 (18))		
Common stock	62,907,666	85,789,319
Stock dividends distributable	11,238,570	-
Capital reserve (Note 4 (20))		
Paid-in capital in excess of par value of common stock	20,221,815	23,670,255
Capital reserve from conversion of convertible bonds	18,482,483	18,482,483
Capital reserve from long-term investments	14,444,291	13,274,789
Capital reserve from stock warrants (Note 4 (15))	1,195,200	1,195,200
Retained earnings (Note 4 (21))		
Legal reserve	31,024,118	36,537,436
Undistributed earnings	150,795,114	181,506,260
Other adjustments of stockholders' equity		
Unrealized gain or loss on financial instruments (Note 4 (3))	18,154,415	12,258,097
Cumulative translation adjustments	7,983,341	20,670,043
Treasury stock	(18,901)	(18,901)
Total Stockholders' equity of parent company	336,428,112	393,364,981
Minority interest	33,797,003	33,809,497
Total stockholders' equity	370,225,115	427,174,478
Commitments and Contingent Liabilities (Note 7)		
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 875,213,548	$ 900,913,643

The accompanying notes are an integral part of these consolidated financial statements.
See review report of independent accountants dated August 26, 2009.

HON HAI PRECISION INDUSTRY CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE SIX-MONTH PERIODS ENDED JUNE 30,
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT EARNINGS PER SHARE DATA)
(UNAUDITED)

	2008	2009
Operating revenues		
Sales (Note 5)	$ 811,510,654	$ 812,453,508
Sales returns	(433,396)	(335,449)
Sales discounts	(43,998)	(15,545)
Net operating revenues	811,033,260	812,102,514
Operating costs		
Cost of goods sold (Notes 3, 4 (6)(23) and 5)	(740,455,680)	(736,225,492)
Gross profit	70,577,580	75,877,022
Operating expenses (Notes 4 (19)(23))		
Sales and marketing expenses	(10,701,596)	(14,096,367)
General and administrative expenses	(17,819,824)	(17,811,468)
Research and development expenses	(10,086,260)	(11,306,922)
Total operating expenses	(38,607,680)	(43,214,757)
Operating income	31,969,900	32,662,265
Non-operating income and gains		
Interest income	1,918,335	413,045
Gain on valuation of financial assets (Note 4 (2))	232,997	-
Gain on valuation of financial liabilities (Note 4 (2))	6,299	-
Investment income accounted for under the equity method (Note 4 (8))	657,537	652,659
Gain on disposal of investments	530	-
Foreign exchange gain - net	7,953,615	1,831,519
Other non-operating income (Notes 4 (9) and 5)	1,820,555	1,832,288
Total non-operating income and gains	12,589,868	4,729,511
Non-operating expenses and losses		
Interest expense	(3,512,214)	(1,419,161)
Loss on valuation of financial assets (Note 4 (2))	-	(45,513)
Loss on valuation of financial liabilities (Note 4 (2))	-	(206,048)
Financing charges (Note 4 (4))	(536,853)	(8,754)
Impairment loss (Notes 4 (8)(9)(10))	-	(1,325,354)
Other non-operating losses	(1,011,210)	(754,277)
Total non-operating expenses and losses	(5,060,277)	(3,759,107)
Income before income tax	39,499,491	33,632,669
Income tax expense (Note 4 (14))	(9,913,493)	(5,383,973)
Consolidated net income	$ 29,585,998	$ 28,248,696
Attributable to:		
Equity holders of the Company	$ 28,008,159	$ 28,377,469
Minority interest	1,577,839	(128,773)
	$ 29,585,998	$ 28,248,696

	2008 Before income tax	2008 After income tax	2009 Before income tax	2009 After income tax
Earnings per common share (Note 4 (22))				
Basic earnings per common share				
Consolidated net income	$ 4.63	$ 3.47	$ 3.94	$ 3.30
Minority interest (income) loss	(0.22)	(0.18)	(0.01)	0.02
Net income attributable to equity holders of the Company	$ 4.41	$ 3.29	$ 3.93	$ 3.32
Diluted earnings per common share				
Consolidated net income	$ 4.59	$ 3.44	$ 3.90	$ 3.28
Minority interest (income) loss	(0.22)	(0.18)	(0.01)	0.01
Net income attributable to equity holders of the Company	$ 4.37	$ 3.26	$ 3.89	$ 3.29

The accompanying notes are an integral part of these consolidated financial statements.
See review report of independent accountants dated August 26, 2009.

HON HAI PRECISION INDUSTRY CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE SIX-MONTH PERIODS ENDED JUNE 30,
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)
(UNAUDITED)

	Capital stock			Retained Earnings		Other Adjustments of Stockholders' Equity				
	Common stock	Stock dividends distributable	Capital reserves	Legal reserve	Undistributed earnings	Unrealized gain or loss on financial instruments	Cumulative translation adjustments	Treasury stock	Minority interest	Total
2008										
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 the period	-	-	-	-	28,008,159	-	-	-	1,577,839	29,585,998
Unrealized loss on financial assets	-	-	-	-	-	(15,852,184)	-	-	-	(15,852,184)
Adjustments due to changes in equities of long-term investments	-	-	1,372,380	-	-	(1,900,397)	-	-	-	(528,017)
Cumulative translation adjustment	-	-	-	-	-	-	(3,226,973)	-	-	(3,226,973)
Minority interest	-	-	-	-	-	-	-	-	(594,877)	(594,877)
Balance at June 30, 2008	$ 62,907,666	$ 11,238,570	$ 54,343,789	$ 31,024,118	$ 150,795,114	$ 18,154,415	$ 7,983,341	($ 18,901)	$ 33,797,003	$ 370,225,115
2009										
Balance at January 1, 2009	$ 74,146,236	$ -	$ 52,944,370	$ 31,024,118	$ 177,920,130	$ 4,727,053	$ 20,423,841	($ 18,901)	$ 33,153,976	$ 394,320,823
Appropriation of 2008 earnings										
Legal reserve	-	-	-	5,513,318	(5,513,318)	-	-	-	-	-
Cash dividends	-	-	-	-	(8,156,086)	-	-	-	-	(8,156,086)
Stock dividends	11,121,935	-	-	-	(11,121,935)	-	-	-	-	-
Employees' stock bonus	521,148	-	3,448,441	-	-	-	-	-	-	3,969,589
Consolidated net income for the period	-	-	-	-	28,377,469	-	-	-	(128,773)	28,248,696
Unrealized gain on financial assets	-	-	-	-	-	6,025,809	-	-	-	6,025,809
Adjustments due to changes in equities of long-term investments	-	-	229,916	-	-	1,505,235	-	-	-	1,735,151
Cumulative translation adjustment	-	-	-	-	-	-	246,202	-	-	246,202
Minority interest	-	-	-	-	-	-	-	-	784,294	784,294
Balance at June 30, 2009	$ 85,789,319	$ -	$ 56,622,727	$ 36,537,436	$ 181,506,260	$ 12,258,097	$ 20,670,043	($ 18,901)	$ 33,809,497	$ 427,174,478

The accompanying notes are an integral part of these consolidated financial statements.

See review report of independent accountants dated August 26, 2009.

HON HAI PRECISION INDUSTRY CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX-MONTH PERIODS ENDED JUNE 30,
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)
(UNAUDITED)

	2008	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Consolidated net income	$ 29,585,998	$ 28,248,696
Adjustments to reconcile consolidated net income to net cash provided by operating activities:		
(Reversal of allowance) provision for doubtful accounts	(5,637)	1,160,211
Depreciation	13,210,636	16,989,664
Amortization of intangible and other assets	2,183,351	2,548,636
Loss on disposal of property, plant and equipment, net	37,583	21,721
(Reversal gain) loss on impairment	(3,045)	1,325,354
Loss (gain) on valuation of financial assets and liabilities, net	35,177	(38,332)
(Reversal of allowance) provision for inventory obsolescence and market price decline	(49,101)	1,189,326
Investment income accounted for under the equity method	(657,537)	(652,659)
Gain on disposal of investments	(530)	-
Amortization of discount of convertible bonds payable	197,563	197,563
Changes in assets and liabilities:		
Financial assets at fair value through profit or loss	16,655	(155,142)
Notes receivable	(1,018,337)	(562,018)
Accounts receivable	64,899,685	4,588,854
Accounts receivable - related parties	(920,756)	(844,267)
Inventories	(22,158,262)	(1,570,361)
Other receivables	(6,444,191)	1,728,472
Prepayments	(1,059,693)	(921,155)
Accounts payable	(29,021,629)	4,958,635
Accounts payable - related parties	(3,437,528)	4,889,755
Accrued expenses	(9,065,918)	(3,748,423)
Accrued warranty liabilities	1,787,105	97,463
Receipts in advance	2,509,277	1,714,887
Income tax payable	(469,563)	(1,932,291)
Accrued pension liabilities	21,245	30,453
Other payables and other current liabilities	(4,443,929)	2,540,519
Deferred income tax liabilities	366,169	(2,428,536)
Net cash provided by operating activities	36,094,788	59,377,025
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	(33,711,095)	(17,162,856)
Proceeds from disposal of property, plant and equipment	519,353	1,350,917
Increase in other assets	(1,895,656)	(1,141,738)
Increase in financial assets / liabilities at fair value through profit or loss	(100,640)	(227,506)
Acquisition of financial assets carried at cost	(151,700)	(30,000)
Increase in long-term equity investments	(1,914,262)	(235,000)
Proceeds from disposal of funds and investments	260	-
(Increase) decrease in other financial assets - non-current	(5,569,486)	34,056
Acquisition of land use right	(2,506,513)	(336,870)
Net cash used in investing activities	(45,329,739)	(17,748,997)

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HON HAI PRECISION INDUSTRY CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE SIX-MONTH PERIODS ENDED JUNE 30,
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)
(UNAUDITED)

	2008	2009
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in short-term loans	$ 43,201,085	($ 16,271,180)
Payment of long-term loans	(1,696)	-
Decrease in other liabilities - others	(44,598)	(248,884)
(Decrease) increase in minority interest	(594,877)	784,294
Net cash provided by (used in) financing activities	42,559,914	(15,735,770)
Net effect of changes in foreign currency exchange rates	(266,526)	20,670
Net increase in cash and cash equivalents	33,058,437	25,912,928
Cash and cash equivalents at beginning of period	144,376,145	99,142,368
Cash and cash equivalents at end of period	$ 177,434,582	$ 125,055,296
Supplemental disclosures of cash flow information:		
Cash paid during the period for interest	$ 3,606,980	$ 1,499,601
Cash paid during the period for income tax	$ 10,749,225	$ 1,379,086
Cash paid for the acquisition of property, plant and equipment		
Increase in property, plant and equipment	$ 30,721,741	$ 12,614,653
Add: Payable - beginning	6,939,849	8,068,285
Less: Payable - ending	(3,582,938)	(3,550,164)
Effect of changes in foreign currency exchange rates	(367,557)	30,082
Cash paid	$ 33,711,095	$ 17,162,856
Investing activities with no cash flow effect:		
Adjustment for change in value of available-for-sale financial assets		
Unrealized (loss) gain on financial instruments	($ 15,852,184)	$ 6,025,809
Evaluation of long-term investments accounted for under the equity method	(1,900,397)	1,505,235
	($ 17,752,581)	$ 7,531,044
Financing activities with no cash flow effect:		
Cash dividends payable	$ 18,872,300	$ 8,156,086
Employees' bonus payable	$ 3,791,224	$ 3,969,589

The accompanying notes are an integral part of these consolidated financial statements.
See review report of independent accountants dated August 26, 2009.

HON HAI PRECISION INDUSTRY CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2009
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT AS OTHERWISE INDICATED)
(UNAUDITED)

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 $85,789,319. 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 June 30, 2009, the Company and its subsidiaries had approximately 563,000 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 (%) 2008.06.30	Ownership Percentage (%) 2009.06.30
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 (%) 2008.06.30	2009.06.30
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. companies	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%
Ambit Microsystems Holding Corp. and subsidiaries	Wholly-owned subsidiary	Investment holdings in Mainland China companies	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 (%) 2008.06.30	2009.06.30
Premier Image Technology -Hong Kong Limited and subsidiaries	Majority-owned subsidiary	Manufacture and sales of camera	99.96%	99.96%
Foxconn SA B.V. and subsidiaries	Majority-owned subsidiary	Investment holdings	95%	95%
Unique Logistics Ltd.	Wholly-owned subsidiary	A Mainland China company engaged in trading	100%	-
Premier Image Technology -Japan Limited	Majority-owned subsidiary	Manufacture, design and sales of images, optics products and camera lens	88%	-
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 certain consolidated subsidiaries as of and for the six-month periods ended June 30, 2008 and 2009 were not reviewed by independent accountants, which reflect total assets of $174,181,881 and $203,522,045, constituting 19.90% and 22.59% of the consolidated total assets, and total liabilities of $57,392,449 and $80,670,377, constituting 11.37% and 17.03% of the consolidated total liabilities as of June 30, 2008 and 2009, respectively. The total net income was $7,839,454 and $3,751,757, constituting 26.50% and 13.28% of the consolidated net income for the six-month periods ended June 30, 2008 and 2009, respectively.

B. Changes in consolidated subsidiaries

(1)In March 2008, the Company established a holding company, Foxconn SA B.V., which is engaged in export processing business investment in Russia, and was accordingly included in the consolidated financial statements.

(2)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.

(3)In September 2008, Ambit Microsystems Holding Corp. disposed its subsidiary's 100% share ownership due to reorganization; as a result, Ambit Microsystems Holding Corp.'s subsidiary's shares were 100% directly held by Foxconn (Far East) Ltd.

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

(5)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 six-month periods ended June 30, 2008 and 2009, 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) <u>Criteria for classifying assets and liabilities as current or non-current items</u>

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) <u>Use of estimates</u>

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) <u>Foreign currency transactions</u>

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 intercompany accounts that are, in nature, deemed long term are 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 transactions are recognized at fair value on the trade date; derivatives not under the method of option transactions 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

Effective January 1, 2009, the Group adopted the amendments to R.O.C. SFAS No. 10, “Accounting for Inventories”. The perpetual inventory system is adopted for inventory recognition. Inventories are stated at cost. The cost is determined using the weighted-average method. At the end of period, inventories are evaluated at the lower of cost or net realizable value, and the individual item approach is used in the comparison of cost and net realizable value. The calculation of net realizable value is based on the estimated selling price in the normal course of business, net of estimated costs of completion and estimated selling expenses.

As the value of raw materials declines and the cost of finished goods is over the net realizable value, the net realizable value of raw materials is determined based on current replacement cost.

Prior to 2009, 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 the 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 investments in which the Group holds more than 50% or has the ability to control the investees' 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 attributed 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

A. 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.

B. 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 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.

D. As a result of the amendment of the Income Tax Law, the Company recalculated its deferred tax assets and liabilities and recorded the resulting difference in the current year income tax benefit or expense.

23) Treasury stock

A. The Company adopted the R.O.C. SFAS No. 30 "Accounting for Treasury Stocks" to account for 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. CHANGES IN ACCOUNTING PRINCIPLES

1) Inventories

Effective January 1, 2009, the Group adopted the amendments to R.O.C. SFAS No. 10, “Accounting for Inventories”. As a result of this change in accounting principle, loss on market price decline increased by $573,717, consolidated net income decreased by $550,768 and earning per share decreased by $0.06 for the six-month period ended June 30, 2009. Further, operating cost increased by $1,187,761 and non-operating loss associated with inventories decreased by $1,187,761 for the six-month period ended June 30, 2009.

2) 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 $1,613,005 and earnings per share decreased by $0.22 for the six-month period ended June 30, 2008.

4. DETAILS OF SIGNIFICANT ACCOUNTS

(1)Cash and cash equivalents

	June 30, 2008	June 30, 2009
Cash on hand	$ 9,743,821	$ 7,386,942
Checking accounts	900,858	284,268
Savings deposits	26,390,096	35,470,028
Time deposits	129,335,014	60,128,750
	166,369,789	103,269,988
Cash equivalents	11,064,793	21,785,308
	$ 177,434,582	$ 125,055,296

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

	June 30, 2008		
	Book value	Contract amount (Nominal principal) (in thousands)	
Financial assets held for trading			
Futures contracts	$ 99,740		-
Open-end funds	11,584		-
Forward exchange contracts-offset	39,960	USD(BUY)	180,000
		HKD(SELL)	390,119
		TWD(SELL)	3,900,680
Forward exchange contracts-open	4,736	USD(SELL)	50,000
		RMB(BUY)	34,310
	$ 156,020		
Financial liabilities held for trading			
Forward exchange contracts-open	($ 39,913)	USD(BUY)	230,000
		VND(BUY)	166,480,700
		JPY(BUY)	114,737
		TWD(SELL)	6,968,150
		USD(SELL)	150,000
		VND(SELL)	19,228,740
Forward exchange contracts-offset	(3,229)	USD(BUY)	20,000
		RMB(SELL)	601,770
	($ 43,142)		

	June 30, 2009		
	Book value	Contract amount (Nominal principal) (in thousands)	
Financial assets held for trading			
Futures contracts	$ 282,963		-
Open-end funds	15,000		-
Forward exchange contracts-offset	4,893	USD(BUY)	65,000
		BRL(SELL)	10,110
		TWD(SELL)	1,634,600
		JPY(SELL)	973,500
Forward exchange contracts-open	71,275	HUF(BUY)	282,300
		JPY(BUY)	4,241,920
		MXN(BUY)	150,197
		RMB(BUY)	20,523
		USD(BUY)	461,300
		VND(BUY)	86,116,256
		BRL(SELL)	3,910
		EUR(SELL)	1,000
		INR(SELL)	14,279
		RMB(SELL)	3,135,440
		USD(SELL)	62,859
	$ 374,131		
Financial liabilities held for trading			
Forward exchange contracts-offset	($ 19,210)	RMB(BUY)	67,940
		RUB(BUY)	91,980
		USD(BUY)	25,000
		USD(SELL)	13,000
		TWD(SELL)	327,050
		BRL(SELL)	18,917
		CZK(SELL)	114,468
Forward exchange contracts-open	(32,943)	EUR(BUY)	3,000
		HUF(BUY)	1,100,340
		JPY(BUY)	1,463,452
		MXN(BUY)	26,288
		USD(BUY)	336,784
		BRL(SELL)	9,649
		EUR(SELL)	11,000
		HUF(SELL)	602,880
		INR(SELL)	2,276
		RMB(SELL)	2,188,240
		USD(SELL)	21,090
	($ 52,153)		

1) For the six-month period ended June 30, 2009, the Group recognized a net loss of $251,561 including unrealized gain of $38,332.

2) For the six-month period ended June 30, 2008, the Group recognized a net gain of $239,296 including unrealized loss of $35,177.

(3) Available-for-sale financial assets

	June 30, 2008		June 30, 2009	
Current items:				
Listed stocks	$	67,042	$	72,093
Adjustment of available-for-sale financial assets		1,110,679		1,105,869
	$	1,177,721	$	1,177,962
Non-current items:				
Listed stocks	$	5,395,336	$	5,267,667
Adjustment of available-for-sale financial assets		10,649,113		8,384,674
	$	16,044,449	$	13,652,341

The fair value of available-for-sale financial assets decreased by $17,752,581 and increased by $7,531,044 for the six-month periods ended June 30, 2008 and 2009, respectively, and is shown as an adjustment to stockholders' equity as unrealized gain or loss on financial instruments.

(4) Notes and accounts receivable - third parties

	June 30, 2008 Amount	June 30, 2008 Allowance for doubtful accounts	June 30, 2008 Net amount
Notes receivable	$ 2,171,830	($ 74,597)	$ 2,097,233
Accounts receivable	185,178,249	(2,509,160)	182,669,089
	$187,350,079	($ 2,583,757)	$184,766,322

	June 30, 2009 Amount	June 30, 2009 Allowance for doubtful accounts	June 30, 2009 Net amount
Notes receivable	$ 1,611,465	($ 74,597)	$ 1,536,868
Accounts receivable	249,617,481	(3,783,426)	245,834,055
	$251,228,946	($ 3,858,023)	$247,370,923

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 June 30, 2008 and 2009, the relevant information of accounts receivable factored but unsettled were as follows:

June 30, 2008					
Institutions	Interest rate (%)	Accounts receivable sold/ derecognized	Amount advanced	Amount retained	Limit
Mega International Commercial Bank	3.26	$ 3,830,955	$ 3,830,955	$ -	$ 15,170,000
Taipei Fubon Bank	3.28	8,475,124	8,475,124	-	21,238,000
Sumitomo Mitsui Banking Corporation	3.02	6,401,740	6,401,740	-	10,619,000
ING Bank, N.V.	2.97~3.18	3,440,646	3,440,646	-	6,068,000
		$22,148,465	$22,148,465	$ -	$ 53,095,000

June 30, 2009					
Institutions	Interest rate (%)	Accounts receivable sold/ derecognized	Amount advanced	Amount retained	Limit
Mega International Commercial Bank	0.55	$ 1,104,057	$ 1,104,057	$ -	$ 16,405,000
Taipei Fubon Bank	0.60	1,072,887	1,072,887	-	22,967,000
		$ 2,176,944	$ 2,176,944	$ -	$ 39,372,000

2. For the six-month periods ended June 30, 2008 and 2009, the financing charges (expenses) incurred from accounts receivable factoring were $536,853 and $8,754 (shown as "financing charges"), respectively.

(5) Other receivables

	June 30, 2008	June 30, 2009
Tax refund receivable	$ 9,635,345	$ 11,737,375
Receivables for payments made on behalf of others	931,831	1,355,040
Other receivables – related parties	587,819	726,025
Dividends receivable	380,734	216,361
Others	4,625,339	2,898,988
	$ 16,161,068	$ 16,933,789

(6) Inventories

	June 30, 2008	June 30, 2009
Raw materials and supplies	$ 70,857,925	$ 60,584,809
Work in process	33,016,237	33,862,101
Finished goods	66,497,429	68,755,683
Inventory in transit	16,036,609	13,627,231
	186,408,200	176,829,824
Less: Allowance for inventory obsolescence and market price decline	(5,797,785)	(9,723,595)
	$ 180,610,415	$ 167,106,229

Expenses and loss incurred on inventories for the six-month periods ended June 30, 2008 and 2009 were as follows:

	For the six-month periods ended June 30,	
	2008	2009
Cost of inventories sold	$ 740,504,781	$ 735,037,731
Loss on inventory obsolescence and market price decline	(49,101)	1,189,326
Others	-	(1,565)
	$ 740,455,680	$ 736,225,492

(7) Financial assets carried at cost

	June 30,	
Name of investee company	2008	2009
Diamondhead Ventures Ltd.	$ 412,287	$ 307,732
Global Strategic Investment Inc.	290,585	200,400
Entire Technology Co., Ltd.	227,500	148,489
Others	1,006,995	668,078
	$ 1,937,367	$ 1,324,699

1) As of June 30, 2009, the Group had recognized accumulated impairment loss amounting to $1,177,906 on its investments carried at cost.

2) 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

	June 30, 2009	June 30,	
Investee Company	Ownership Percentage (%)	2008	2009
Foxconn Technology Co., Ltd.	31	$ 14,480,766	$ 13,541,065
Foxconn Advanced Technology, Ltd.- Cayman	43	3,776,765	3,719,846
Pan International Industrial Corporation	27	3,922,580	3,545,718
Simplo Technology Co., Ltd.	9	1,625,702	1,730,200
Ampower Holding Limited - Cayman	46	-	1,237,740
Ways Technical Corp., Ltd.	24	1,057,991	1,129,884
G-Tech Optoelectronics Corporation	42	827,946	725,397
CyberTAN Technology, Inc.	11	527,761	523,799
Alliance Fiber Optic Products Inc.	20	241,682	321,758
Diabell Co., Ltd.	20	381,062	283,831
Others		1,980,943	1,864,142
		28,823,198	28,623,380
Add: Prepaid long-term investment		970,020	-
		$ 29,793,218	$ 28,623,380

1) The consolidated financial statements included investment income (loss) accounted for under the equity method of $187,477 and $613,355, constituting 0.63% and 2.17% of the consolidated net income for the six-month periods ended June 30, 2008 and 2009, respectively, and the related long-term investments balance $8,731,229 and $20,593,099, constituting 1.00% and 2.29% of the consolidated total assets as of June 30, 2008 and 2009, respectively. These amounts were based on the financial statements of the investee companies for the same period which were not audited or reviewed by independent accountants.

2) The Group recognized impairment loss amounting to $65,155 (shown as impairment loss) for the six-month period ended June 30, 2009 on its investment accounted for under the equity method, and the accumulated impairment loss amounted to $626,760 as of June 30, 2009.

3) 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 in Ampower Holding Limited-Cayman dropped to 45.5% 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)B.

(9) Property, plant and equipment

	June 30, 2008		
	Original cost	Accumulated depreciation	Net book value
Land	$ 3,902,601	$ -	$ 3,902,601
Buildings and improvements	67,514,499	(7,891,186)	59,623,313
Machinery	133,621,859	(43,884,993)	89,736,866
Molding equipment	2,997,105	(2,453,146)	543,959
Testing equipment	17,244,799	(7,617,576)	9,627,223
Furniture and fixtures	11,197,308	(5,786,905)	5,410,403
Tooling equipment	2,701,037	(1,287,475)	1,413,562
Miscellaneous equipment	21,632,696	(8,003,253)	13,629,443
Prepayments for equipment and construction in progress	35,427,911	-	35,427,911
	$ 296,239,815	($ 76,924,534)	219,315,281
Less: Accumulated impairment			(556,567)
			$218,758,714

	June 30, 2009		
	Original cost	Accumulated depreciation	Net book value
Land	$ 3,703,839	$ -	$ 3,703,839
Buildings and improvements	100,691,528	(15,707,025)	84,984,503
Machinery	154,980,995	(57,115,468)	97,865,527
Molding equipment	2,847,581	(2,390,516)	457,065
Testing equipment	19,678,538	(10,488,760)	9,189,778
Furniture and fixtures	12,776,776	(7,212,083)	5,564,693
Tooling equipment	3,093,551	(1,465,840)	1,627,711
Miscellaneous equipment	27,339,279	(10,901,518)	16,437,761
Prepayments for equipment and construction in progress	29,215,002	-	29,215,002
	$ 354,327,089	($105,281,210)	249,045,879
Less: Accumulated impairment			(2,565,150)
			$246,480,729

The Group recognized a net gain on the recovery of impairment loss of $3,045 (shown as "other income") and impairment loss of $299,949 (shown as "impairment loss") for the six-month periods ended June 30, 2008 and 2009, respectively.

(10) Intangible assets

1) Goodwill

	For the six-month periods ended June 30,	
	2008	2009
Net book value, January 1	$ 2,268,102	$ 2,291,662
Impairment loss	-	(960,250)
Cumulative translation adjustments	(132,293)	14,215
Net book value, June 30	$ 2,135,809	$ 1,345,627

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

B.The Company's subsidiary recognized impairment loss on its goodwill amounting to $960,250 (shown as "impairment loss") for the six-month period ended June 30, 2009.

2) 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 six-month period ended June 30, 2009 are set forth below:

	For the six-month period ended June 30, 2009
Net book value, January 1	$ 818,688
Increase in current year	-
Amortization in current year	(169,042)
Cumulative translation adjustments	3,929
Net book value, June 30	$ 653,575

(11) Other assets

	June 30,	
	2008	2009
Land use rights	$ 15,060,636	$ 19,247,580
Others	2,459,914	3,515,788
	$ 17,520,550	$ 22,763,368

As of June 30, 2008 and 2009, the land use rights were as follows:

	For the six-month periods ended June 30,	
	2008	2009
Net book value, January 1	$ 13,310,595	$ 19,091,762
Increase in current year	2,506,513	336,870
Amortization in current year	(149,579)	(182,021)
Cumulative translation adjustments	(606,893)	969
Net book value, June 30	$ 15,060,636	$ 19,247,580

(12) Short-term loans

	June 30,	
	2008	2009
Credit loans	$ 147,845,881	$ 43,913,266
Interest rates per annum	1.82% ~ 6.72%	0.31% ~ 5.8%

(13) Accrued expenses

	June 30,	
	2008	2009
Awards and salaries payable	$ 8,697,608	$ 9,602,716
Royalty fees payable	-	3,100,545
Business Tax (VAT) payable	4,221,756	2,803,946
Employees' bonuses payable	1,512,192	2,043,192
Welfare fees payable	564,972	2,263,325
Shipping fees payable	2,219,299	2,035,558
Tax payable (excluding VAT)	1,259,218	969,280
Consumption goods expense payable	661,270	903,055
Molding payable	662,543	770,121
Others	6,815,760	11,139,771
	$ 26,614,618	$ 35,631,509

(14) Income tax

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

	June 30, 2008	June 30, 2009
Income tax expense	$ 9,913,493	$ 5,383,973
Changes in deferred income tax	(366,169)	2,428,536
Less: Prepaid income tax and income tax withheld	(450,769)	(631,136)
Over provision of prior years' income tax	159,264	974,235
Add: Income tax payable at the beginning of the period	3,117,897	2,522,163
Income tax payable	$ 12,373,716	$ 10,677,771

2) As of June 30, 2008 and 2009, the deferred income tax assets and liabilities were as follows:

	June 30, 2008	June 30, 2009
Deferred income tax assets	$ 2,777,333	$ 3,041,259
Deferred income tax liabilities	($ 8,496,156)	($ 6,096,732)

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

	June 30, 2008		June 30, 2009	
	Amount	Tax effect	Amount	Tax effect
Current items:				
Allowance for doubtful accounts	$ 1,130,416	$ 282,604	$ 1,999,061	$ 399,813
Reserve for inventory obsolescence and market price decline	6,347,875	971,421	6,088,015	1,269,142
Unrealized exchange losses	247,560	61,890	6,797	1,445
Product warranty	2,785,171	696,293	3,986,275	797,255
Others	414,600	104,895	522,583	103,690
	$10,925,622	2,117,103	$12,602,731	2,571,345
Non-current items:				
Reserve for pension cost	$ 804,259	201,065	$ 831,116	166,223
Foreign investment income accounted for under the equity method	(33,984,629)	(8,496,156)	(30,483,661)	(6,096,732)
Difference in depreciation	80,256	20,064	-	-
Others	1,756,404	439,101	1,129,520	303,691
	($31,343,710)	(7,835,926)	($28,523,025)	(5,626,818)
		($5,718,823)		($3,055,473)

4) As of June 30, 2009, 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

	June 30,	
	2008	2009
2006 1st domestic convertible bonds payable	$ 18,000,000	$ 18,000,000
Less: Discount on bonds payable	(542,479)	(144,079)
	17,457,521	17,855,921
First unsecured corporate bonds issue in 2005	11,500,000	11,500,000
First debenture issue of 2008	-	5,180,000
	28,957,521	34,535,921
Less: Current portion	-	(17,855,921)
Bonds payable – long term	$ 28,957,521	$ 16,680,000

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 June 30, 2009, the convertible bonds have not been redeemed. The conversion price was adjusted to $182.01 (in dollars) per share based on the resolution approved at the stockholders' meeting in 2009.

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 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:

Type of bonds	Issuance date	Period	Amount	Nominal interest rate	Payment term
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:

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

4) On January 12, 2009, following the approval from the SFB, the Company issued domestic unsecured bonds in the amount of $6,820,000, and on April 3, 2009, following the approval from the SFB, the Company extended the issue date until October 11, 2009.

(16) Long-term loans

Institution	Loan period	June 30, 2009	Limit
Mizuho Corporate Bank Ltd., etc. syndicated loan	2008/8/21~2011/8/21	$ 17,553,350	(USD 535,000,000)
〃	2008/9/11~2013/9/11	16,405,000	(USD 500,000,000)
		$ 33,958,350	
Interest rate		4.2288%~4.8438%	

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 loan agreement shall maintain the following financial rations, 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. The pension expenses under the defined benefit plan amounted to $36,197 and $34,795 for the six-month periods ended June 30, 2008 and 2009, respectively. The balance of the fund which is deposited with Bank of Taiwan was $534,811 and $552,318 as of June 30, 2008 and 2009, respectively.

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 the 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 $110,895 and $114,186 for the six-month periods ended June 30, 2008 and 2009, 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 $1,847,847 and $1,690,494 for the six-month periods ended June 30, 2008 and 2009, respectively.

(18) Capital stock

1) As of June 30, 2009, the Company's authorized capital amounted to 9,300 million shares (including 200 million shares reserved for stock warrants or bonds issued with detachable warrants) and the issued and outstanding common stocks were 8,578,932 thousand shares with a par value of $10 (in dollars) per share.

2) On April 16, 2009, the Company's shareholders adopted a resolution to increase the authorized capital to 9,300 million shares and issue common stocks at par value amounting to $11,121,935.

3) On April 16, 2009, the Company's shareholders approved employees' stock bonus amounting

to $3,969,589 for 2008. The employee stock bonus of 52,115 thousand shares was determined based on the closing price of $76.17 (in dollars) on April 15, 2009, the previous day of the 2009 shareholders' meeting after taking into accounts the effects of ex-rights and ex-dividends.

4) 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 the 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 Depositary 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 June 30, 2009, 119,400,000 units of GDRs were outstanding, which represents 238,799 thousand shares of common stock.

(19) Share-based payment - employee compensation plan

As of June 30, 2008 and 2009, 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:

Type of arrangement	Grant date	Quantity granted	Contract period	Vesting conditions/ Restricted terms
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:

Grant date	Stock price (HK$)	Exercise price (HK$)	Expected price volatility	Expected dividend yield rate	Risk-free interest rate	Fair value per share (US$)
July 25, 2005	$ 5.95	$ 6.06	30%	-	3.39%	$ 0.24
September 12, 2007(A)	19.46	20.63	36%	-	3.92%	0.86
September 12, 2007(B)	19.46	20.63	36%	-	4.09%	0.71

For the six-month periods ended June 30, 2008 and 2009, the weighted-average exercise price of employee stock options outstanding were US$1.53 and US$0.73 (in dollars) per share, respectively, and expenses incurred on employee stock options transactions were $284,149 (US$9,172 thousand) and $66,174 (US$1,973 thousand), respectively. Details of the employee stock options are set forth below:

	For the six-month periods ended June 30,	
Employee Stock Options (In shares)	2008	2009
Options outstanding at beginning of period	335,075,767	308,100,192
Options granted	-	-
Options exercised	(7,542,745)	(16,000)
Options revoked	(2,316,530)	(24,162,439)
Options outstanding at end of period	325,216,492	283,921,753
Options exercisable at end of period	51,793,432	103,945,423

2) Share appreciation rights

For the six-month periods ended June 30, 2008 and 2009, the range of exercise price of stock appreciation rights outstanding were HK$10.56 HK$26.05 and HK$3.96 HK$26.05 (in dollars), respectively. As of June 30, 2008 and 2009, liabilities on stock appreciation rights were $46,481 (US$1,532 thousand) and $39,864 (US$1,215 thousand), respectively (shown as "Accrued expenses"). For the six-month periods ended June 30, 2008 and 2009, expenses incurred on stock appreciation rights transactions were $4,957 (US$160 thousand) and $8,855

(US$264 thousand), respectively.

3) Other share-based payment plans

These share-based payments were granted to employees gratuitously. For the six-month periods ended June 30, 2008 and 2009, expenses incurred on other share-based payments were $1,011,125 (US$32,638 thousand) and $102,901 (US$3,068 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 cash shall not exceed 90 percent of total dividends to stockholders.

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

	June 30, 2008	June 30, 2009
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	64,026,626	58,719,305
	$ 150,795,114	$ 181,506,260

3) The details of imputation system were as follows:

	June 30, 2008	June 30, 2009
Balance of stockholders deductible tax account	$ 21,677,687	$ 21,141,842
	December 31, 2008 (Actual)	June 30, 2009 (Estimated)
Tax deductible rate of earnings distribution	14.38%	15.27%

4) The appropriation of 2007 and 2008 earnings had been resolved at the stockholders' meeting on June 2, 2008 and April 16, 2009, respectively. Details are summarized below:

	2007 earnings		2008 earnings	
	Amount	Dividends per share (in dollars)	Amount	Dividends per share (in dollars)
Legal reserve	$ 7,768,951	$ -	$ 5,513,318	$ -
Stock dividends	9,436,150	1.5	11,121,935	1.5
Cash dividends	18,872,300	3.0	8,156,086	1.1
Employees' stock bonus	1,802,420	-	-	-
Employees' cash bonus	3,791,224	-	-	-
	$41,671,045	$ 4.5	$24,791,339	$ 2.6

The earnings distribution information are posted on the "Market Observation Post System" at the website of the TSEC.

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 and are recognized as operating costs or operating expenses for 2008. The information of employees' bonus and directors' and supervisors' remuneration is posted on the "Market Observation Post System" at the website of the TSEC. The employee stock bonus of 52,115 thousand shares were determined by the closing price of the Company's common stock, $76.17 (in dollars), on April 15, 2009, the previous day of the 2009 shareholders' meeting after taking into account the effects of ex-rights and ex-dividends. The employee stock bonus less than one share is paid in cash in the amount of $29 (in

dollars).

(22) Earnings per common share

	For the six-month period ended June 30, 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	$39,499,491	$29,585,998	8,525,856	$ 4.63	$ 3.47
Minority interest	(1,889,930)	(1,577,839)		(0.22)	(0.18)
Net income attributable to equity holders of the Company	$37,609,561	$28,008,159		$ 4.41	$ 3.29
Diluted earnings per share:					
Consolidated net income	$39,499,491	$29,585,998		$ 4.57	$ 3.42
Minority interest	(1,889,930)	(1,577,839)		(0.22)	(0.18)
Dilutive effect of stock equivalents:					
Convertible bonds	197,563	148,172	98,896	0.02	0.02
Employees' bonus-2008	-	-	18,736	-	-
Net income attributable to equity holders of the Company	$37,807,124	$28,156,331	8,643,488	$ 4.37	$ 3.26

	For the six-month period ended June 30, 2009				
	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	$33,632,669	$28,248,696	8,547,738	$ 3.94	$ 3.30
Minority interest	(66,834)	128,773		(0.01)	0.02
Net income attributable to equity holders of the Company	$33,565,835	$28,377,469		$ 3.93	$ 3.32
Diluted earnings per share:					
Consolidated net income	$33,632,669	$28,248,696		$ 3.88	$ 3.26
Minority interest	(66,834)	128,773		(0.01)	0.01
Dilutive effect of stock equivalents:					
Convertible bonds	197,563	148,172	98,896	0.02	0.02
Employees' bonus-2009	-	-	23,149	-	-
Net income attributable to equity holders of the Company	$33,763,398	$28,525,641	8,669,783	$ 3.89	$ 3.29

1) 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.

2) The number of shares had been retroactively adjusted based on the stock dividends as of June 30, 2009.

(23) Personnel, depreciation and amortization expenses

	For the six-month periods ended June 30,	
	2008	2009
Cost of sales		
Personnel expenses		
Salaries	$ 26,206,614	$ 21,968,148
Labor and health insurances	1,070,676	980,183
Pension	1,248,759	1,139,147
Others	529,373	443,756
	$ 29,055,422	$ 24,531,234
Depreciation	$ 10,519,042	$ 13,068,647
Amortization	$ 1,175,211	$ 1,127,637
Operating expenses		
Personnel expenses		
Salaries	$ 18,310,401	$ 17,983,864
Labor and health insurances	1,078,475	954,480
Pension	746,180	700,328
Others	270,648	265,822
	$ 20,405,704	$ 19,904,494
Depreciation	$ 2,691,594	$ 3,921,017
Amortization	$ 1,008,140	$ 1,420,999

5. RELATED PARTY TRANSACTIONS

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

Names of related parties	Relationship with the Company
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, Inc. 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

All the transactions with subsidiaries disclosed below had been eliminated when preparing consolidated financial statements. Except for transactions with the above related parties, there were no other material transactions between related parties and the Company for the six-month periods ended June 30, 2008 and 2009.

2) Significant transactions and balances with related parties

A. Sales

	For the six-month periods ended June 30,	
	2008	2009
FTCS	$ 28,436,749	$ 35,772,417
CyberTAN	2,300,401	5,180,450
InnoLuxS	6,185,305	4,465,914
Others	963,152	1,031,559
	$ 37,885,607	$ 46,450,340

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

B. Purchases

	For the six-month periods ended June 30,	
	2008	2009
FTCS	$ 8,498,116	$ 9,117,151
InnoLuxS	9,742,314	4,290,859
FATS-Cayman	2,181,888	4,046,783
PIICS	3,931,447	2,958,861
CUPC	1,107,903	-
Others	269,093	845,874
	$ 25,730,761	$ 21,259,528

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. The payment terms to third parties are between 30 to 90 days.

C. Accounts receivable - related parties

	June 30,	
	2008	2009
FTCS	$ 6,476,612	$ 10,336,108
InnoLuxS	2,804,550	2,798,275
CyberTAN	742,759	1,867,844
Others	236,209	802,510
	10,260,130	15,804,737
Less: Allowance for doubtful accounts	(116,159)	(169,433)
	$ 10,143,971	$ 15,635,304

D. Prepayment

	June 30,	
	2008	2009
FITI	$ -	$ 116,610

E. Other receivables

The Group purchased materials on behalf of FTCS and FITI, etc. As of June 30, 2008 and 2009, other receivables amounted to $587,819 and $726,025, respectively.

F. Accounts payable - related parties

	June 30,	
	2008	2009
FTCS	$ 5,946,863	$ 12,143,345
InnoLuxS	3,680,671	1,197,992
PIICS	2,575,165	2,308,805
FATS-Cayman	1,213,443	2,625,114
Others	747,272	272,445
	$ 14,163,414	$ 18,547,701

As of June 30, 2009, portion of accounts payable to FICS in the amount of $5,935,656 pertains to purchases of materials made by FICS on behalf of the Group.

G. Property transactions

For the six-month period ended June 30, 2008				
Counterparty	Transaction	Sales / purchase price	Gain on disposal	Receivables / (payables) at June 30, 2008
FTCS, InnoLuxS and FITI	Sale of fixed assets	$ 117,408	$ 294	$ 49,736
〃	Acquisition of fixed assets	132,414	-	(4,378)
PIICS and InnoLuxS	Sale of stocks	260	-	-

For the six-month period ended June 30, 2009				
Counterparty	Transaction	Sales / purchase price	Gain on disposal	Receivables / (payables) at June 30, 2009
FTCS, InnoLuxS, FAT-Cayman and FITI	Sale of fixed assets	$ 170,076	$ 261	$ 48,767
FTCS, InnoLuxS, CyberTAN and PIICS	Acquisition of fixed assets	44,918	-	(44,131)

H. 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.

6. PLEDGED ASSETS

As of June 30, 2008 and 2009, the assets pledged as collateral were as follows:

		June 30,	
		2008	2009
Assets	Nature	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.	$6,174,331	$ 85,145
Other asset -Refundable deposit	Short-term loans and custom's deposits	21,986	111,746
		$6,196,317	$ 196,891

7. COMMITMENTS AND CONTINGENT LIABILITIES

As of June 30, 2009, the Group's significant commitments and contingent liabilities were as follows:

1) The Company entered into several contracts for the acquisition of machinery and construction of research center with total value of approximately $23,595 million. As of June 30, 2009, the unpaid balance on these contracts amounted to $3,341 million.
2) As of June 30, 2009, future minimum lease payments for a factory and employees' apartments were approximately $1,386 million as follows:

Year	Amount
2009.7~2010.12	$ 431,735
2011	267,081
2012	176,412
2013	146,571
2014 and thereafter	364,094
	$ 1,385,893

3) 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.
4) 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. 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.
5) 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. Spansion Inc. has made an out of court settlement with Samsung on March 3, 2009. However, Spansion Inc. has filed for bankruptcy in the United States, and the approval for settlement is dependent on the bankruptcy court. The case will be closed after the approval of bankruptcy.
6) O2 Micro Int’l Ltd. filed a lawsuit against the Company and Ampower Holding Ltd., an indirectly-owned investee company accounted for under the equity method, alleging failure to comply with the out of court settlement relating to a previous patent dispute litigation and claimed indemnities for its losses. 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 under the authority of the United States.

8.SIGNIFICANT CATASTROPHE

In April 2009, the Company's and subsidiaries' plants in Mexico caught fire with no one hurt. All damages caused by the fire will be compensated by the insurance company. There was no significant effect on the Company's business operations and financial conditions, because the supply chain was properly supported by nearby plants.

9.SUBSEQUENT EVENTS

None

10.OTHERS

1) Financial statement presentation:

Certain accounts in the June 30, 2008 consolidated financial statements were reclassified to conform with the June 30, 2009 consolidated financial statement presentation.

2) Fair value of financial instruments

	June 30, 2008			
		Fair value		
Non-derivative financial instruments	Book value	Quotation in an active market	Estimated using a valuation technique	Note
Assets:				
Financial assets with fair values equal to book values	$388,505,943	$ -	$388,505,943	A
Open-end funds	11,584	11,584	-	B
Available-for-sale financial assets	17,222,170	17,222,170	-	C
Financial assets carried at cost - non-current	1,937,367	-	-	D
Refundable deposits	1,376,858	-	1,340,530	E
Liabilities:				
Financial liabilities with fair values equal to book values	452,311,758	-	452,311,758	A
Bonds payable	28,957,521	-	28,264,643	F
Derivative financial instruments				
Assets:				
Futures contracts	99,740	-	99,740	G
Forward exchange contracts - open	4,736	-	4,736	G
Forward exchange contracts - offset	39,960	-	39,960	G
Liabilities:				
Forward exchange contracts - open	39,913	-	39,913	G
Forward exchange contracts - offset	3,229	-	3,229	G

Non-derivative financial instruments	June 30, 2009 Book value	Fair value: Quotation in an active market	Fair value: Estimated using a valuation technique	Note
Assets:				
Financial assets with fair values equal to book values	$404,995,312	$ -	$404,995,312	A
Open-end funds	15,000	15,000	-	B
Available-for-sale financial assets	14,830,303	14,830,303	-	C
Financial assets carried at cost - non-current	1,324,699	-	-	D
Refundable deposits	700,208	-	651,963	E
Liabilities:				
Financial liabilities with fair values equal to book values	403,536,343	-	403,536,343	A
Long-term bonds payable	16,680,000	-	16,674,784	F
Current bonds payable	17,855,921	-	17,487,940	F
Derivative financial instruments				
Assets:				
Futures contracts	282,963	-	282,963	G
Forward exchange contracts - offset	4,893	-	4,893	G
Forward exchange contracts- - open	71,275	-	71,275	G
Liabilities:				
Forward exchange contracts - offset	19,210	-	19,210	G
Forward exchange contracts - open	32,943	-	32,943	G
Off-balance sheet financial instruments				
Guarantees	34,069,095 (US$1,035,000 thousand)	-	34,069,095 (US$1,035,000 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 assets at June 30, 2008 and 2009.

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 June 30, 2008 and 2009.

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 June 30, 2008 and 2009.

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) <u>Credit risk of off-balance sheet financial instruments</u>

Please see Note 5. 2) G.

4) <u>Financial risk control</u>

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) <u>Material financial risk information</u>

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.