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

## DECEMBER 31, 2010 AND 2011

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

REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

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

We have audited the accompanying consolidated balance sheets of Hon Hai Precision Industry Co., Ltd. and its subsidiaries as of December 31, 2010 and 2011, and the related consolidated statements of income, of changes in stockholders' equity and of cash flows for the years then ended, expressed in thousands of New Taiwan dollars. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of certain consolidated subsidiaries which statements reflect total assets of $250,314,287,000 and $245,803,235,000, constituting 18.13% and 14.21% of the consolidated total assets as of December 31, 2010 and 2011, respectively, and total revenues of $409,044,811,000 and $405,044,774,000, constituting 13.65% and 11.73% of the consolidated total operating revenues for the years then ended, respectively. Those statements were audited by other auditors, whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for these subsidiaries, is based solely on the reports of the other auditors.

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

In our opinion, except for the omission of certain additional disclosures relating to the investee companies, as required by Article 13-1 of the Rules Governing the Preparation of Financial Statements by Securities Issuers, based on our audits and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hon Hai Precision Industry Co., Ltd. and its subsidiaries as of December 31, 2010 and 2011, and the results of their operations and their cash flows for the years then ended in conformity with the "Rules

Governing the Preparation of Financial Statements by Securities Issuers" and generally accepted accounting principles in the Republic of China.

As described in Note 3, effective January 1, 2011, the Company and subsidiaries adopted the amendments to R.O.C. SFAS No. 34, "Financial Instruments: Recognition and Measurement" and R.O.C. SFAS No. 41, "Operating Segments".

PricewaterhouseCoopers, Taiwan
March 27, 2012

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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**
**DECEMBER 31,**
**(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)**

| | 2010 | 2011 |
|---|---|---|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents (Note 4(1)) | $ 254,241,323 | $ 329,793,633 |
| Financial assets at fair value through profit or loss - current (Note 4(2)) | 85,049 | 70,329 |
| Available-for-sale financial assets - current (Note 4(3)) | 969,600 | 674,287 |
| Notes and accounts receivable, net (Note 4(4)) | 391,139,913 | 450,757,984 |
| Accounts receivable, net - related parties (Note 5) | 18,679,337 | 25,291,811 |
| Other receivables (Notes 4(5) and 5) | 30,893,285 | 34,679,896 |
| Other financial assets - current (Note 6) | 58,290,032 | 46,741,750 |
| Inventories, net (Notes 4(6)) | 259,383,715 | 380,521,794 |
| Prepayments (Note 5) | 5,121,096 | 7,119,919 |
| Deferred income tax assets - current (Note 4(15)) | 4,034,243 | 8,016,419 |
| | 1,022,837,593 | 1,283,667,822 |
| Funds and Investments | | |
| Available-for-sale financial assets - non-current (Note 4(3)) | 13,735,973 | 4,790,319 |
| Financial assets carried at cost - non-current (Note 4(7)) | 3,039,286 | 4,046,796 |
| Equity investments under the equity method (Note 4(8)) | 35,931,938 | 40,259,657 |
| Prepayments for long-term investments (Note 4(8)) | 30,556 | 1,545 |
| Other financial assets - non-current (Note 6) | 29,088 | 24,179 |
| | 52,766,841 | 49,122,496 |
| Property, Plant and Equipment (Notes 4(9), 5 and 6) | | |
| Cost | | |
| Land | 4,085,467 | 4,225,808 |
| Buildings and improvements | 120,125,861 | 151,455,281 |
| Machinery | 190,502,643 | 246,249,077 |
| Molding equipment | 4,473,691 | 3,633,968 |
| Testing equipment | 22,981,119 | 24,948,040 |
| Office equipment | 13,982,903 | 15,863,541 |
| Tooling equipment | 3,329,030 | 3,270,354 |
| Other equipment | 31,796,808 | 43,977,326 |
| Cost and revaluation | 391,277,522 | 493,623,395 |
| Less: Accumulated depreciation | ( 140,549,750) | ( 165,396,856) |
| Accumulated impairment | ( 5,220,239) | ( 4,432,302) |
| Construction in progress and prepayments for equipment | 26,642,156 | 31,579,244 |
| | 272,149,689 | 355,373,481 |
| Intangible Assets (Note 4(10)) | | |
| Goodwill | 215,474 | 695,266 |
| Other intangible assets | 139,824 | - |
| | 355,298 | 695,266 |
| Other Assets | | |
| Deferred charges | 6,782,214 | 15,101,778 |
| Other assets - other (Note 4(11)) | 25,640,486 | 26,350,582 |
| | 32,422,700 | 41,452,360 |
| TOTAL ASSETS | $ 1,380,532,121 | $ 1,730,311,425 |

(continued)

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

| | 2010 | 2011 |
|---|---|---|
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current Liabilities | | |
| Short-term loans (Note 4(12)) | $ 199,857,014 | $ 260,522,749 |
| Short-term notes and bills payable (Note 4(13)) | 9,591,288 | 7,989,312 |
| Financial liabilities at fair value through profit or loss - current (Note 4(2)) | 182,234 | 251,834 |
| Accounts payable | 403,617,098 | 519,725,102 |
| Accounts payable - related parties (Note 5) | 23,536,212 | 28,769,177 |
| Income tax payable (Note 4(15)) | 14,626,004 | 19,939,503 |
| Accrued expenses (Notes 4(14)(20)) | 59,098,806 | 87,322,885 |
| Payables for equipment (Note 5) | 11,197,683 | 28,177,904 |
| Other payables | 6,803,587 | 5,835,155 |
| Receipts in advance | 6,808,528 | 5,584,781 |
| Long-term liabilities - current portion (Notes 4(16)(17)) | 21,006,300 | 3,000,000 |
| Accrued warranty liabilities | 13,553,800 | 21,417,453 |
| Other current liabilities | 1,373,821 | 3,180,188 |
| | 771,252,375 | 991,716,043 |
| Long-term Liabilities | | |
| Bonds payable (Note 4(16)) | 45,635,371 | 62,378,777 |
| Long-term loans (Note 4(17)) | 42,319,850 | 53,600,100 |
| | 87,955,221 | 115,978,877 |
| Other Liabilities | | |
| Reserve for retirement plan (Note 4(18)) | 1,091,012 | 1,064,300 |
| Deferred income tax liabilities - non-current (Note 4(15)) | 2,853,999 | 1,793,747 |
| Other liabilities - other | 3,933,509 | 4,738,974 |
| | 7,878,520 | 7,597,021 |
| Total Liabilities | 867,086,116 | 1,115,291,941 |
| Stockholders' Equity | | |
| Stockholders' Equity of Parent Company | | |
| Capital stock (Note 4(19)) | | |
| Common stock | 96,612,482 | 106,890,967 |
| Capital reserve (Note 4(21)) | | |
| Paid-in capital in excess of par value of common stock | 28,591,137 | 34,724,228 |
| Capital reserve from conversion of convertible bonds | 18,482,483 | 18,482,483 |
| Capital reserve from long-term investments | 14,707,803 | 15,452,488 |
| Capital reserve from conversion right (Note 4(16)) | 3,229,640 | 2,034,440 |
| Retained earnings (Note 4(22)) | | |
| Legal reserve | 44,105,947 | 51,821,402 |
| Undistributed earnings | 270,947,354 | 325,500,402 |
| Other adjustments to stockholders' equity | | |
| Cumulative translation adjustments | ( 9,330,319) | 21,141,456 |
| Unrealized gain or loss on financial instruments (Note 4(3)) | 13,265,130 | 1,802,723 |
| Treasury stock | ( 18,901) | ( 18,901) |
| Stockholders' equity of parent company | 480,592,756 | 577,831,688 |
| Minority interest | 32,853,249 | 37,187,796 |
| Total stockholders' equity | 513,446,005 | 615,019,484 |
| Commitments and Contingent Liabilities (Note 7) | | |
| Subsequent Events (Note 9) | | |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | $ 1,380,532,121 | $ 1,730,311,425 |

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

See report of independent accountants dated March 27, 2012.

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

| | 2010 | 2011 |
|---|---|---|
| Operating Revenue | | |
| Sales (Note 5) | $ 2,997,205,316 | $ 3,452,681,273 |
| Operating Costs | | |
| Cost of goods sold (Notes 4(6)(24) and 5) | ( 2,753,003,129) | ( 3,186,298,789) |
| Gross profit | 244,202,187 | 266,382,484 |
| Operating expenses (Notes 4(20)(24)) | | |
| Sales and marketing expenses | ( 64,045,996) | ( 72,749,672) |
| General and administrative expenses | ( 55,219,454) | ( 69,941,002) |
| Research and development expenses | ( 38,790,804) | ( 40,846,782) |
| Total operating expenses | ( 158,056,254) | ( 183,537,456) |
| Operating income | 86,145,933 | 82,845,028 |
| Non-operating income and gains | | |
| Interest income | 3,218,842 | 8,424,751 |
| Investment income accounted for under the equity method (Note 4(8)) | 3,253,572 | 3,151,898 |
| Dividend income | 86,033 | 167,904 |
| Gain on disposal of property, plant and equipment (Note 5) | - | 155,628 |
| Gain on disposal of investments (Note 4(3)) | 547,963 | 584,107 |
| Foreign exchange gain - net | 2,889,672 | 8,981,365 |
| Other non-operating income (Note 3) | 4,485,114 | 5,976,471 |
| Total non-operating income and gains | 14,481,196 | 27,442,124 |
| Non-operating expenses and losses | | |
| Interest expense | ( 2,726,565) | ( 5,704,004) |
| Loss on disposal of property, plant and equipment (Note 5) | ( 250,940) | - |
| Financing charges (Note 4(4)) | ( 365,224) | ( 482,813) |
| Impairment loss (Notes 4(3)(7)(8)(9)(10)) | ( 3,810,024) | ( 564,979) |
| Loss on valuation of financial assets (Note 4(2)) | ( 85,721) | ( 28,311) |
| Loss on valuation of financial liabilities (Note 4(2)) | ( 622,073) | ( 433,239) |
| Other non-operating losses | ( 1,289,374) | ( 537,606) |
| Total non-operating expenses and losses | ( 9,149,921) | ( 7,750,952) |
| Income before income tax | 91,477,208 | 102,536,200 |
| Income tax expense (Note 4(15)) | ( 16,004,564) | ( 20,601,567) |
| Consolidated net income | $ 75,472,644 | $ 81,934,633 |
| Attributable to: | | |
| Equity holders of the Company | $ 77,154,551 | $ 81,590,999 |
| Minority interest | ( 1,681,907) | 343,634 |
| | $ 75,472,644 | $ 81,934,633 |

| | 2010 Before income tax | 2010 After income tax | 2011 Before income tax | 2011 After income tax |
|---|---|---|---|---|
| Earnings per common share (Note 4(23)) | | | | |
| Basic earnings per common share | | | | |
| Consolidated net income | $ 8.61 | $ 7.10 | $ 9.62 | $ 7.68 |
| Minority interest | 0.12 | 0.16 | ( 0.08) | ( 0.03) |
| Net income attributable to equity holders of the Company | $ 8.73 | $ 7.26 | $ 9.54 | $ 7.65 |
| Diluted earnings per common share | | | | |
| Consolidated net income | $ 8.33 | $ 6.88 | $ 9.41 | $ 7.52 |
| Minority interest | 0.12 | 0.15 | ( 0.08) | ( 0.03) |
| Net income attributable to equity holders of the Company | $ 8.45 | $ 7.03 | $ 9.33 | $ 7.49 |

The accompanying notes are an integral part of these consolidated financial statements.
See report of independent accountants dated March 27, 2012.

**HON HAI PRECISION INDUSTRY CO., LTD. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**
**FOR THE YEARS ENDED DECEMBER 31,**
**(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)**

| | Capital Stock | | Retained Earnings | | Other Adjustments to Stockholders' Equity | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Common stock | Capital Reserves | Legal reserve | Undistributed earnings | Cumulative translation adjustments | Unrealized gain ( loss) on financial instruments | Treasury stock | Minority interest | Total |
| **2010** | | | | | | | | | |
| Balance at January 1, 2010 | $ 85,789,319 | $ 57,308,705 | $ 36,537,436 | $ 228,813,896 | $ 14,522,082 | $ 16,902,917 | ($ 18,901) | $ 34,855,525 | $ 474,710,979 |
| Appropriations of 2009 earnings (Note 1): | | | | | | | | | |
| Legal reserve | - | - | 7,568,511 | ( 7,568,511) | - | - | - | - | - |
| Cash dividends | - | - | - | ( 17,157,864) | - | - | - | - | ( 17,157,864) |
| Stock dividends | 10,294,718 | - | - | ( 10,294,718) | - | - | - | - | - |
| Employees' stock bonus | 528,445 | 4,920,883 | - | - | - | - | - | - | 5,449,328 |
| Consolidated net income for 2010 | - | - | - | 77,154,551 | - | - | - | ( 1,681,907) | 75,472,644 |
| Common stock issued for bonds conversion | - | 2,034,440 | - | - | - | - | - | - | 2,034,440 |
| Unrealized loss on financial assets | - | - | - | - | - | ( 3,172,934) | - | - | ( 3,172,934) |
| Adjustments due to changes in equities of long-term investments | - | 747,035 | - | - | - | ( 464,853) | - | - | 282,182 |
| Cumulative translation adjustment | - | - | - | - | ( 23,852,401) | - | - | - | ( 23,852,401) |
| Minority interest | - | - | - | - | - | - | - | ( 320,369) | ( 320,369) |
| Balance at December 31, 2010 | $ 96,612,482 | $ 65,011,063 | $ 44,105,947 | $ 270,947,354 | ($ 9,330,319) | $ 13,265,130 | ($ 18,901) | $ 32,853,249 | $ 513,446,005 |
| **2011** | | | | | | | | | |
| Balance at January 1, 2011 | $ 96,612,482 | $ 65,011,063 | $ 44,105,947 | $ 270,947,354 | ($ 9,330,319) | $ 13,265,130 | ($ 18,901) | $ 32,853,249 | $ 513,446,005 |
| Appropriations of 2010 earnings (Note 2): | | | | | | | | | |
| Legal reserve | - | - | 7,715,455 | ( 7,715,455) | - | - | - | - | - |
| Cash dividends | - | - | - | ( 9,661,248) | - | - | - | - | ( 9,661,248) |
| Stock dividends | 9,661,248 | - | - | ( 9,661,248) | - | - | - | - | - |
| Employees' stock bonus | 617,237 | 4,937,891 | - | - | - | - | - | - | 5,555,128 |
| Consolidated net income for 2011 | - | - | - | 81,590,999 | - | - | - | 343,634 | 81,934,633 |
| Unrealized loss on financial assets | - | - | - | - | - | ( 8,892,143) | - | - | ( 8,892,143) |
| Transfer due to expiry of convertible bonds | | | | | | | | | |
| Paid-in capital in excess of par | - | 1,195,200 | - | - | - | - | - | - | 1,195,200 |
| Capital reserve from conversion right | - | ( 1,195,200) | - | - | - | - | - | - | ( 1,195,200) |
| Adjustments due to changes in equities of long-term investments | - | 744,685 | - | - | - | ( 2,570,264) | - | - | ( 1,825,579) |
| Cumulative translation adjustment | - | - | - | - | 30,471,775 | - | - | - | 30,471,775 |
| Minority interest | - | - | - | - | - | - | - | 3,990,913 | 3,990,913 |
| Balance at December 31, 2011 | $ 106,890,967 | $ 70,693,639 | $ 51,821,402 | $ 325,500,402 | $ 21,141,456 | $ 1,802,723 | ($ 18,901) | $ 37,187,796 | $ 615,019,484 |

Note 1: Directors' and supervisors' remuneration amounting to $0 and employees' bonus amounting to $5,449,328 had been deducted from the Consolidated Statement of Income in 2009.

Note 2: Directors' and supervisors' remuneration amounting to $0 and employees' bonus amounting to $5,555,128 had been deducted from the Consolidated Statement of Income in 2010.

The accompanying notes are an integral part of these consolidated financial statements.
See report of independent accountants dated March 27, 2012.

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

| | 2010 | 2011 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Consolidated net income | $ 75,472,644 | $ 81,934,633 |
| Adjustments to reconcile consolidated net income to net cash provided by operating activities: | | |
| Provision (reversal of allowance) for doubtful accounts | 549,927 | ( 1,235,775) |
| Depreciation | 36,862,441 | 45,661,397 |
| Amortization of intangible and other assets | 4,268,101 | 5,794,344 |
| Loss (gain) on disposal of property, plant and equipment, net | 250,940 | ( 155,628) |
| Loss on impairment | 3,810,024 | 564,979 |
| Loss on valuation of financial assets and liabilities, net | 112,185 | 205,917 |
| Provision for inventory obsolescence and market price decline | 1,636,893 | 4,827,280 |
| Investment income accounted for under the equity method | ( 3,253,572) | ( 3,151,898) |
| Cash dividends from long-term investments accounted for under the equity method | 708,082 | 596,865 |
| Gain on disposal of investments | ( 547,963) | ( 584,107) |
| Amortization on discount of convertible bonds payable | 149,306 | 645,094 |
| Changes in assets and liabilities: | | |
| Financial assets at fair value through profit or loss | - | ( 9,412) |
| Notes receivable | 3,147,329 | 6,379,705 |
| Accounts receivable | ( 118,194,039) | ( 64,911,164) |
| Accounts receivable - related parties | 201,346 | ( 6,463,311) |
| Inventories | ( 90,363,483) | ( 125,965,359) |
| Other receivables | ( 6,800,321) | ( 3,786,611) |
| Prepayments | ( 1,889,332) | ( 1,743,980) |
| Accounts payable | 137,019,077 | 116,108,004 |
| Accounts payable - related parties | 4,728,721 | 5,232,965 |
| Accrued expenses | 9,634,395 | 33,779,206 |
| Accrued warranty liabilities | 5,909,563 | 7,863,653 |
| Income tax payable | 1,388,146 | 5,313,499 |
| Other payables and other current liabilities | ( 1,158,406) | 600,582 |
| Receipts in advance | 2,076,113 | ( 1,223,747) |
| Deferred income tax | ( 3,274,357) | ( 5,042,428) |
| Accrued pension liabilities | 11,769 | ( 26,712) |
| Net cash provided by operating activities | 62,455,529 | 101,207,991 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Acquisition of property, plant and equipment | ( 72,715,922) | ( 91,666,421) |
| (Increase) decrease in other financial assets - non-current | ( 57,869,962) | 15,744,557 |
| Increase in other assets | ( 5,730,578) | ( 13,185,355) |
| Acquisition of land use right | ( 966,559) | ( 2,545,301) |
| Increase in long-term equity investments | ( 1,646,138) | ( 854,579) |
| Acquisition of financial assets carried at cost | ( 1,885,123) | ( 963,826) |
| Proceeds from disposal of property, plant and equipment | 3,756,634 | 4,495,537 |
| Financial assets / liability at fair value through profit or loss | 198,826 | ( 112,185) |
| Proceeds from disposal of funds and investments | 602,224 | 2,339,899 |
| Acquisition of available-for-sale financial assets | ( 58,162) | - |
| Proceeds from disposal of land use right | - | 1,855,833 |
| Acquisition of subsidiary and assets, net of cash acquired | ( 2,896,936) | ( 1,278,561) |
| Net cash used in investing activities | ( 139,211,696) | ( 86,170,402) |

(Continued)

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

| | 2010 | 2011 |
|---|---|---|
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Increase in short-term loans | $ 131,190,076 | $ 47,184,885 |
| Increase (decrease) in notes and bills payable | 9,591,288 | ( 1,601,976) |
| Increase in long-term loans | 15,957,200 | 22,029,600 |
| Increase in bonds payable | 37,349,059 | 18,000,000 |
| Redemption of bonds payable | ( 6,000,000) | ( 17,219,400) |
| Payment of long-term loans | - | ( 16,128,700) |
| Increase in other liabilities-other | 2,007,221 | 665,904 |
| Payment of cash dividends | ( 17,157,864) | ( 9,661,248) |
| Payment of employees' bonus accumulated before 2008 | ( 932,136) | - |
| (Decrease) increase in minority interest | ( 320,369) | 3,990,913 |
| Net cash provided by financing activities | 171,684,475 | 47,259,978 |
| Net effect of changes in foreign currency exchange rates | ( 18,230,125) | 13,254,743 |
| Net increase in cash and cash equivalents | 76,698,183 | 75,552,310 |
| Cash and cash equivalents at beginning of year | 177,543,140 | 254,241,323 |
| Cash and cash equivalents at end of year | $ 254,241,323 | $ 329,793,633 |
| Supplemental disclosures of cash flow information: | | |
| Cash paid during the year for interest | $ 2,568,062 | $ 4,673,272 |
| Cash paid during the year for income tax | $ 15,846,447 | $ 17,021,446 |
| Cash paid for the acquisition of property, plant and equipment | | |
| Increase in property, plant and equipment | $ 80,925,575 | $ 108,335,664 |
| Add: Payable – beginning balance | 4,058,968 | 11,197,683 |
| Less: Payable – ending balance | ( 11,197,683) | ( 28,177,904) |
| Effect of changes in foreign currency exchange rates | ( 1,070,938) | 310,978 |
| Cash paid | $ 72,715,922 | $ 91,666,421 |
| Investing activities with no cash flow effect: | | |
| Unrealized gain (loss) on financial instruments | | |
| Adjustment for change in value of available-for-sale financial assets | ($ 3,172,934) | ($ 8,892,143) |
| Valuation of long-term investments accounted for under the equity method | ( 464,853) | ( 2,570,264) |
| | ($ 3,637,787) | ($ 11,462,407) |
| Cumulative translation adjustments | ($ 23,852,401) | $ 30,471,775 |
| Fair value information of acquired subsidiary | | |
| Current assets | $ 28,005,606 | $ 339,826 |
| Property, plant and equipment | 9,627,690 | 835,604 |
| Goodwill | - | 483,316 |
| Other assets | 592,537 | 81,712 |
| Current liabilities | ( 32,157,918) | ( 237,353) |
| Other liabilities | ( 853,577) | ( 139,561) |
| Total purchase price | 5,214,338 | 1,363,544 |
| Less: Minority interest | ( 179,484) | - |
| Cash of subsidiary | ( 2,137,918) | ( 84,983) |
| Net assets of acquired subsidiary (less cash received) | $ 2,896,936 | $ 1,278,561 |

The accompanying notes are an integral part of these consolidated financial statements.
See report of independent accountants dated March 27, 2012.

**HON HAI PRECISION INDUSTRY CO., LTD. AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**DECEMBER 31, 2010 AND 2011**
**(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT AS OTHERWISE INDICATED)**

1. HISTORY AND ORGANIZATION

Hon Hai Precision Industry Co., Ltd. (the Company) was established on February 20, 1974. The Company began to be 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 $106,890,967. The main activities of the Company are the manufacture, processing and sales of connectors, cable, enclosures, wired/wireless communication products, optics products, power supply modules, and assemblies for use in the IT, communications, automotive equipment, precision molding, automobile, and consumer electronics industries. As of December 31, 2011, the Company and its subsidiaries had approximately 961,000 employees.

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. 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. Significant intercompany transactions and assets and liabilities arising from intercompany transactions are eliminated.

B. Subsidiaries included in the consolidated financial statements and their changes in 2011:

| Investor | Subsidiaries | Main operating activities | Ownership percentage (%) 2010.12.31 | Ownership percentage (%) 2011.12.31 | Note |
|---|---|---|---|---|---|
| Hon Hai Precision Industry Co., Ltd. | Foxconn (Far East) Ltd. and subsidiaries | Investment holdings in Mainland China, Europe and North America and Hong Kong electronics manufacturers | 100% | 100% | (3)ace |
| 〃 | Foxconn Holding Ltd. and subsidiaries | Investment holdings in Asia Pacific and North America hi-tech companies | 100% | 100% | |

| Investor | Subsidiaries | Main operating activities | Ownership percentage (%) 2010.12.31 | 2011.12.31 | Note |
|---|---|---|---|---|---|
| Hon Hai Precision Industry Co., Ltd. | Hyield Venture Capital Co., Ltd. and subsidiaries | Venture capital investment company and investment holdings in electronics manufacturers | 97.50% | 97.50% | |
| 〃 | Bao Shin International Investment Co., Ltd. and subsidiaries | Domestic investment company and investment holdings in companies engaged in computer system and machinery business | 100% | 100% | |
| 〃 | Hon Yuan International Investment Co., Ltd. and subsidiaries | Domestic investment company and investment holdings in companies engaged in computer system and machinery business | 100% | 100% | |
| 〃 | Hon Chi International Investment Co., Ltd. and subsidiaries | Domestic investment company and investment holdings in companies engaged in IT and machinery business | 100% | 100% | |
| 〃 | Lin Yih International Investment Co., Ltd. | Investment holdings in R.O.C. companies | 100% | 100% | |
| 〃 | Hon Hai/ Foxconn Logistics California LLC. | Logistics services | 100% | 100% | |
| 〃 | Hon Hai/ Foxconn Logistics Texas LLC. | Logistics services | 100% | 100% | |
| 〃 | Ambit International Ltd. and subsidiaries | Investment holdings in Mainland China IT, electronic companies | 100% | 100% | |

| Investor | Subsidiaries | Main operating activities | Ownership percentage (%) 2010.12.31 | 2011.12.31 | Note |
|---|---|---|---|---|---|
| Hon Hai Precision Industry Co., Ltd. | Foxconn Singapore (Pte) Ltd. and subsidiaries | Asia pacific sales and investment holdings of Slovakia domestic sales company | 100% | 100% | |
| 〃 | Foxconn International Inc. | Research and development | 100% | 100% | |
| 〃 | Altus Technology Inc. | Manufacture and design of cellular phone and camera lens and marketing of sensors | 100% | 100% | |
| 〃 | Premier Image Technology -Hong Kong Limited and subsidiaries | Manufacture and sales of camera | 99.96% | 99.96% | |
| 〃 | Foxconn SA B.V. and subsidiaries | Investment holdings | 95.00% | 97.76% | |
| 〃 | Margini Holdings Limited and subsidiaries | Investment holdings of Vietnam and Brazil export process and both domestic and export sales companies | 100% | 100% | |
| 〃 | Foxconn Holdings B.V.- Netherland and subsidiaries | Investment holdings of Czech domestic sales companies | 100% | 100% | (3)d |
| 〃 | Syntrend Creative Park Co., Ltd. | Manufacturing and marketing of computer components | 80% | 80% | (3)b |

(1) The financial statements of consolidated subsidiaries as of and for the years ended December 31, 2010 and 2011 were audited by independent accountants.

(2) For the relevant information on indirectly owned subsidiaries of the Company, please refer to Note 11.

(3) Changes in the consolidated subsidiaries

a. In January, 2010, a subsidiary of the Company acquired 90% of Sony Corporation Baja California, S.A. BE C.V, which was consolidated effective the acquisition date.

b. In May, 2010, the Company established and held 80% ownership in Syntrend Creative Park Co., Ltd., which was consolidated effective the acquisition date.
c. In July, 2010, a subsidiary of the Company acquired 90.1% of Sony Corporation Slovakia, SPOL. S R.O. which was consolidated effective the acquisition date.
d. In the fourth quarter of 2010, the Company acquired 100% of Foxconn Holding B.V.-Netherland in its subsidiary due to reorganization. The reorganization in substance had no accounting effect and therefore did not generate profit or loss.
e. In October, 2011, a subsidiary of the Company acquired 100% of Scientific-Atlanta Holdings B.V. and Scientific-Atlanta de Mexico, S. de R.L. de C.V., which were consolidated effective the acquisition date.

C. Majority-owned subsidiaries that were not included in the consolidated financial statements: None.
D. Adjustments for subsidiaries with different balance sheet dates: None.
E. Special operating risks of the foreign subsidiaries: No significant special operating risks that would affect the financial statements.
F. Significant restriction on remittance of funds from the foreign subsidiaries to the Company: None.
G. The Company's common stock owned by its subsidiary:
As of December 31, 2010 and 2011, Hon Jin International Investment Co., Ltd. owned 1,076,705 and 1,184,375 shares, respectively, of the Company's common stock at a cost of $18,901.
H. Information on new issuance of convertible bonds and common stock by subsidiaries: None.

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

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

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

A. Assets that meet one of the following criteria are classified as current assets; otherwise they are classified as non-current assets:
   1) Assets arising from operating activities that are expected to be realized or consumed, or are intended to be sold within the normal operating cycle;
   2) Assets held mainly for trading purposes;
   3) Assets that are expected to be realized within twelve months from the balance sheet date; and
   4) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to pay off liabilities more than twelve months after the balance sheet date.
B. Liabilities that meet one of the following criteria are classified as current liabilities; otherwise they are classified as non-current liabilities:

1) Liabilities arising from operating activities that are expected to be paid off within the normal operating cycle;
2) Liabilities arising mainly from trading activities;
3) Liabilities that are to be paid off within twelve months from the balance sheet date; and
4) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date.

4) Use of estimates

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

5) Foreign currency transactions

A. Transactions denominated in foreign currencies are translated into functional currency at the spot exchange rates prevailing at the transaction dates. Exchange gains or losses due to the difference between the exchange rate on the transaction date and the exchange rate on the actual receipt and payment are recognized in current year's profit or loss.

B. Receivables, other monetary assets and liabilities denominated in foreign currencies are translated at the spot exchange rates prevailing at the balance sheet date. Exchange gains or losses are recognized in profit or loss. However, exchange gains or losses on overseas inter-company accounts that are, in nature, deemed long term is accounted for as a reduction in stockholders' equity.

C. When a gain or loss on a non-monetary item is recognized directly in equity, any exchange component of that gain or loss shall be recognized directly in equity. Conversely, when a gain or loss on a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss shall be recognized in profit or loss. However, non-monetary items that are measured on a historical cost basis are translated using the exchange rate at the date of the transaction.

6) Cash equivalents

Cash equivalents represent short-term, highly liquid investments which can be readily converted into fixed amount of cash and with a maturity period of less than three months. The statement of cash flows is compiled under the cash and cash equivalents basis.

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, closed-end mutual funds and deposit receipts 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. For derivatives that do not qualify for hedge accounting, if the derivative is an option, then the transaction is recognized at fair value on the trade date, and if the derivatives are not an option, then the transaction is recognized at zero fair value on the trade date.

D. The derivative features (such as call options and put options) embedded in bonds payable issued by the Company are described in Note 2 (20).

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, closed-end mutual funds and deposit receipts 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 transferred from equity to 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) Notes and accounts receivable, other receivables

A. Notes and accounts receivable are claims generated from the sale of goods or services. Other receivables are those receivables arising from transactions other than the sale of goods or services. Notes receivable, accounts receivable and other receivables are recognized initially at fair value and are subsequently measured at amortized cost using the effective interest method.

B. The Group recognizes impairment loss on the financial instruments when there is an objective evidence of impairment. The amount of impairment is the book value less the present value of estimated future cash flows, discounted by original effective interest rate. If, subsequently, an event, directly related to impairment, indicates a decrease in impairment, the impairment loss recognized in prior years shall be recovered. The book value of the financial instruments after recovering the impairment shall not exceed the amortized cost that would have been had no impairment been previously recognized.

12) 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.

13) 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 investment in which the Group holds more than 50% of the investee company's voting shares or has the ability to control the investee's operational decisions are accounted for under the equity method and included in the consolidated financial statements on a quarterly basis.

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.

14) 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 servicing or betterments capable of generating future economic benefits are capitalized and depreciated accordingly. Maintenance and repairs are expensed as incurred.

B. Depreciation is provided under the straight-line method based on the assets' estimated economic service lives. The useful lives of property, plant and equipment are 3 to 9 years, except for buildings, the useful life of which is 6 to 51 years.

15) Goodwill and other intangible assets

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

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

16) 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.

17) Impairment of non-financial assets

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

18) Warranty obligation

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

19) 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, and 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.

20) Bonds payable

For bonds issued with embedded conversion, put, or call option feature after January 1, 2006, the issuer shall bifurcate the issuance price based on the substance of the contractual arrangement on initial recognition, and recognized the elements separately as a financial asset, financial liability, or an equity instrument.

These bonds are accounted for as follows:

A. The difference between the issue price and face value of convertible corporate bonds is accounted for as premium or discount which is required to be amortized over the period from the date of issuance to maturity date using the interest method and is recorded as "interest expense".

B. The value of any derivative features (such as a call option and put option) embedded in the compound financial instrument is recognized as “financial assets or financial liabilities at fair value through profit or loss”. These derivative features are subsequently remeasured and stated at fair value on each balance sheet date, and the gain or loss is recognized in “gain or loss on valuation of financial assets or financial liabilities”. At the maturity of the redemption period, if the fair value of common stock exceeds the redemption price, the fair value of the put option is recognized as “capital reserve”; 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 right embedded in the bonds issued by the Company, which is convertible to an equity instrument, is recognized in “capital reserve from stock conversion option”. 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 conversion option.

D. Costs incurred on issuance of convertible bonds are proportionately charged to the liabilities and equities of the underlying instruments based on initial recognition amount.

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 reclassified to non-current liabilities.

21) 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's income tax benefit or expense.

22) Government grants

In accordance with R.O.C. SFAS No. 29, "Government Grants", government grants related to assets are recognized as deferred income; for depreciable assets, it is recognized as income over the useful life period of the asset in proportion to which depreciation expense on those assets is recognized. For non-depreciable assets that require the fulfillment of certain obligations, it would then be recognized as income over the periods that bear the cost of meeting the obligations. If the government grant relates to receiving financial consideration, it is recognized as income when earned, or as deferred income (shown as "other liabilities") and recognized in periods over which the grant will be earned.

23) Treasury stock

A. When shares are bought back by the Company, the treasury stock is accounted for as a deduction of the equity.

B. 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 paid-in capital in excess of par value of common stock 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. Related costs are recognized to match the timing of revenue recognition. Expenses, including research and development costs, are recognized as incurred.

28) Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments.

In accordance with R.O.C. SFAS No. 41, "Operating Segments", segment information is disclosed in the consolidated financial statements rather than in the separate financial statements of the Company.

3. CHANGES IN ACCOUNTING PRINCIPLES

1) Notes and accounts receivable, other receivables

Effective January 1, 2011, the Group adopted the amendments of R.O.C. SFAS No. 34, "Financial Instruments: Recognition and Measurement". The Group recognizes impairment loss on notes receivable, accounts receivable and other receivables when there is an objective evidence of impairment. As a result of the adoption of the amended SFAS No. 34, the Group's consolidated net income increased by $982,020 and consolidated earnings per share increased by $0.09 (in dollars) for the year ended December 31, 2011.

2) Operating segments

Effective January 1, 2011, the Group adopted the newly issued R.O.C. SFAS No. 41, "Operating Segments" to replace the original R.O.C. SFAS No. 20, "Segment Reporting". In accordance with such standard, the Group has re-prepared the segment information for 2010 upon the first adoption of R.O.C. SFAS No. 41. This change in accounting principle had no significant effect on net income and earnings per common share for the years ended December 31, 2011 and 2010.

4. DETAILS OF SIGNIFICANT ACCOUNTS

(1)Cash and cash equivalents

| | December 31, | |
|---|---|---|
| | 2010 | 2011 |
| Cash on hand | $ 5,932,646 | $ 4,201,508 |
| Checking accounts | 1,286,796 | 4,011,744 |
| Savings deposits | 63,477,506 | 105,922,445 |
| Time deposits | 180,056,093 | 206,682,107 |
| | 250,753,041 | 320,817,804 |
| Cash equivalents | 3,488,282 | 8,975,829 |
| | $ 254,241,323 | $ 329,793,633 |

Cash equivalents include the Sweep Fund and short-term commercial paper and bonds purchased with resale agreements with maturity of less than three months.

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

| | December 31, 2010 | | |
|---|---|---|---|
| | Book value | Contract amount (Nominal principal) (in thousands) | |
| Financial assets held for trading | | | |
| Open-end funds | $ 15,000 | | - |
| Forward exchange contracts | 70,049 | BRL(BUY) | 34,020 |
| | | EUR(BUY) | 11,400 |
| | | HUF(BUY) | 558,550 |
| | | JPY(BUY) | 553,756 |
| | | MXN(BUY) | 505,516 |
| | | USD(BUY) | 70,581 |
| | | BRL(SELL) | 3,344 |
| | | EUR(SELL) | 15,300 |
| | | HUF(SELL) | 552,000 |
| | | INR(SELL) | 42,376 |
| | | JPY(SELL) | 1,250,000 |
| | | MXN(SELL) | 18,494 |
| | | RMB(SELL) | 307,599 |
| | | USD(SELL) | 66,496 |
| | $ 85,049 | | |
| Financial liabilities held for trading | | | |
| Forward exchange contracts | ($ 182,234) | EUR(BUY) | 13,821 |
| | | JPY(BUY) | 15,465 |
| | | USD(BUY) | 1,462,758 |
| | | EUR(SELL) | 10,300 |
| | | HUF(SELL) | 998,515 |
| | | INR(SELL) | 456,479 |
| | | JPY(SELL) | 2,107,500 |
| | | MXN(SELL) | 112,834 |
| | | RMB(SELL) | 339,520 |
| | | BRL(SELL) | 210,161 |
| | ($ 182,234) | | |

| | December 31, 2011 | | |
|---|---|---|---|
| | Book value | Contract amount (Nominal principal) (in thousands) | |
| Financial assets held for trading | | | |
| Open-end funds | $ 24,412 | | - |
| Forward exchange contracts | 45,917 | HUF(BUY) | 1,107,070 |
| | | JPY(BUY) | 245,283 |
| | | MXN(BUY) | 28,090 |
| | | RMB(BUY) | 815,616 |
| | | USD(BUY) | 12,249 |
| | | EUR(SELL) | 16,500 |
| | | INR(SELL) | 290,008 |
| | | USD(SELL) | 123,096 |
| | $ 70,329 | | |
| Financial liabilities held for trading | | | |
| Forward exchange contracts | ($ 251,834) | BRL(BUY) | 15,078 |
| | | CHF(BUY) | 2,220 |
| | | EUR(BUY) | 4,137 |
| | | HUF(BUY) | 2,631,660 |
| | | MXN(BUY) | 688,646 |
| | | USD(BUY) | 634,437 |
| | | EUR(SELL) | 8,500 |
| | | INR(SELL) | 39,050 |
| | | RMB(SELL) | 4,035,869 |
| | | USD(SELL) | 65,700 |
| | ($ 251,834) | | |

1) For the year ended December 31, 2010, the Group recognized a net loss of $707,794, including unrealized loss of $112,185.

2) For the year ended December 31, 2011, the Group recognized a net loss of $461,550, including unrealized loss of $205,917.

(3)Available-for-sale financial assets

| | December 31, | | | |
|---|---|---|---|---|
| | 2010 | | 2011 | |
| Current items: | | | | |
| Listed stocks | $ | 57,782 | $ | 59,990 |
| Adjustment of available-for-sale financial assets | | 911,818 | | 614,297 |
| | $ | 969,600 | $ | 674,287 |
| Non-current items: | | | | |
| Listed stocks | $ | 4,331,290 | $ | 4,343,859 |
| Adjustment of available-for-sale financial assets | | 9,404,683 | | 446,460 |
| | $ | 13,735,973 | $ | 4,790,319 |

1. The fair value of available-for-sale financial assets decreased by $3,637,787 and $11,462,407 for the years ended December 31, 2010 and 2011, respectively, and is shown as an adjustment to stockholders' equity as unrealized gain or loss on financial instruments. The transfers from this equity account to loss amounted to $506,914 and $0 (shown as "gain on disposal of investment") for the years ended December 31, 2010 and 2011, respectively.
2. The Company's subsidiaries have evaluated the above financial assets and recognized impairment loss of $0 and $363,601 for the years ended December 31, 2010 and 2011, respectively.

(4)Notes and accounts receivable

| | December 31, | | | |
|---|---|---|---|---|
| | 2010 | | 2011 | |
| Notes receivable | $ | 7,160,993 | $ | 781,288 |
| Accounts receivable | | 388,286,117 | | 453,197,281 |
| Less: Allowance for doubtful accounts | ( | 4,307,197) | ( | 1,835,555) |
| Allowance for sales allowances | | - | ( | 1,385,030) |
| | $ | 391,139,913 | $ | 450,757,984 |

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, and did not provide any collateral. Accordingly, these accounts receivable meet the derecognition criteria for financial assets. The Group has derecognized the accounts receivable sold to financial institutions, net of the amount estimated for business disputes.

   As of December 31, 2010 and 2011, the relevant information of accounts receivable factored but unsettled were as follows:

| December 31, 2010 | | | | | |
| --- | --- | --- | --- | --- | --- |
| Institutions | Interest rate (%) | Accounts receivable sold/ derecognized | Amount advanced | Amount retained | Limit |
| Mega International Commercial Bank | 0.88~0.89 | $19,808,400 | $19,808,400 | $ - | $ 21,847,500 |
| Taipei Fubon Bank | 0.9 | 20,391,000 | 20,391,000 | - | 40,782,000 |
| Mizuho Corporate Bank | 0.85~0.86 | 13,108,500 | 13,108,500 | - | 17,478,000 |
| Sumitomo Mitsui Banking Corporation | 0.79 | 14,565,000 | 14,565,000 | - | 14,565,000 |
| Standard Chartered Commercial Bank | 0.73 | 1,893,450 | 1,893,450 | - | 3,495,600 |
| | | $ 69,766,350 | $69,766,350 | $ - | $ 98,168,100 |

| December 31, 2011 | | | | | |
| --- | --- | --- | --- | --- | --- |
| Institutions | Interest rate (%) | Accounts receivable sold/ derecognized | Amount advanced | Amount retained | Limit |
| Mega International Commercial Bank | 1.70 | $ 3,466,775 | $ 3,466,775 | $ - | $ 22,710,000 |
| Taipei Fubon Bank | 1.28~1.30 | 24,224,000 | 24,224,000 | - | 43,906,000 |
| Mizuho Corporate Bank | 1.07 | 5,753,200 | 5,753,200 | - | 18,168,000 |
| Sumitomo Mitsui Banking Corporation | 0.95 | 10,598,000 | 10,598,000 | - | 10,598,000 |
| Standard Chartered Commercial Bank | 1.50 | 340,374 | 340,374 | - | 3,633,600 |
| | | $ 44,382,349 | $44,382,349 | $ - | $ 99,015,600 |

2. As of December 31, 2010 and 2011, the Group has signed promissory notes amounting to $3,408,210 (US$117,000 thousand) and $3,542,760 (US$117,000 thousand) as settlement in commercial dispute, respectively.
3. For the years ended December 31, 2010 and 2011, the financing charges (expenses) incurred from accounts receivable factoring were $365,224 and $482,813 (shown as “financing charges”), respectively.

(5)Other receivables

| | December 31, 2010 | December 31, 2011 |
| --- | --- | --- |
| Tax refund receivable | $ 26,626,208 | $ 25,442,053 |
| Receivable from payments made on behalf of others | 1,501,924 | 1,564,834 |
| Others | 2,765,153 | 7,673,009 |
| | $ 30,893,285 | $ 34,679,896 |

(6)Inventories

| | December 31, 2010 | December 31, 2011 |
|---|---|---|
| Raw materials and supplies | $ 92,027,102 | $ 95,943,901 |
| Work in process | 49,588,851 | 73,841,392 |
| Finished goods | 99,230,748 | 196,627,104 |
| Inventory in transit | 29,399,802 | 29,648,996 |
| | 270,246,503 | 396,061,393 |
| Less: Allowance for inventory obsolescence and market price decline | ( 10,862,788) | ( 15,539,599) |
| | $ 259,383,715 | $ 380,521,794 |

Expenses and loss incurred on inventories for the years ended December 31, 2010 and 2011 were as follows:

| | For the years ended December 31, 2010 | For the years ended December 31, 2011 |
|---|---|---|
| Cost of inventories sold | $ 2,751,324,984 | $ 3,181,209,951 |
| Loss on inventory obsolescence and market price decline | 1,636,893 | 4,827,280 |
| Others | 41,252 | 261,558 |
| | $ 2,753,003,129 | $ 3,186,298,789 |

(7)Financial assets carried at cost

| Name of investee company | December 31, 2010 | December 31, 2011 |
|---|---|---|
| Riverwood Capital Partners L.P. | $ 186,291 | $ 489,237 |
| Chi Lin Optoelectronics., Ltd. | - | 488,114 |
| Chi Lin Technology Co., Ltd. | 825,000 | 336,886 |
| Diamondhead Ventures Ltd. | 316,911 | 329,422 |
| Wimm. Labs Ltd. | 145,650 | 310,415 |
| Fuhu Inc. | 145,650 | 302,800 |
| Power-All Networks | 174,780 | 272,520 |
| Innovation Works Development Fund L.P. | 69,912 | 145,344 |
| Global Strategic Investment Inc. | 200,400 | 200,400 |
| Aptina Acquisition L.P. | 153,918 | 159,995 |
| Others | 820,774 | 1,011,663 |
| | $ 3,039,286 | $ 4,046,796 |

1) The Group recognized impairment loss in the amounts of $164,067 and $0 (shown as "impairment loss") for the years ended December 31, 2010 and 2011, respectively, on its investments accounted for under the cost method.

2) These investments have no active quoted market price and their fair values cannot be measured reliably. Therefore, they were measured at cost.

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

| Investee Company | December 31, 2011 Ownership Percentage (%) | December 31, 2010 | December 31, 2011 |
|---|---|---|---|
| Foxconn Technology Co., Ltd. | 30 | $ 16,299,001 | $ 16,680,857 |
| Zhen Ding Technology Holding Limited (Formerly Foxconn Advanced Technology Limited) | 43 | 5,273,340 | 7,644,526 |
| Pan International Industrial Corporation | 27 | 3,694,183 | 2,797,361 |
| G-Tech Optoelectronics Corporation | 31 | 1,210,547 | 2,440,357 |
| Simplo Technology Co., Ltd. | 9 | 1,886,280 | 2,074,231 |
| Mediamarkt (China) International Retail Holding Limited-HK | 25 | 910,548 | 1,494,834 |
| ESON Precision. Ind. Co. Ltd. (Formerly Multiwin Precision Ind. Co. Ltd.) | 29 | 1,143,575 | 1,345,316 |
| Ways Technical Corp., Ltd. | 21 | 1,123,290 | 1,140,685 |
| Ampower Holding Limited - Cayman | 45 | 1,009,073 | 941,679 |
| Uer Holdings Corporation - Cayman | 42 | 672,277 | 696,718 |
| CyberTAN Technology, Inc. | 11 | 532,592 | 583,309 |
| Alliance Fiber Optic Products Inc. | 20 | 321,393 | 386,749 |
| Diabell Co., Ltd. | 20 | 240,407 | 236,469 |
| Others | | 1,615,432 | 1,796,566 |
| | | 35,931,938 | 40,259,657 |
| Add: Prepaid long-term investment | | 30,556 | 1,545 |
| | | $ 35,962,494 | $ 40,261,202 |

1) The Group recognized impairment loss amounting to $143,967 and $0 (shown as “impairment loss”) for the years ended December 31, 2010 and 2011 on its investments accounted for under the equity method.

2) For the years ended December 31, 2010 and 2011, the investment income recognized under the equity method amounted to $3,253,572 and $3,151,898, respectively, which was based on the investees’ audited financial statements.

3) For the years ended December 31, 2010 and 2011, cash dividends declared by the investee companies accounted for under the equity method amounted to $708,082 and $596,865, respectively, and were shown as a reduction to the book value of long-term investments accounted for under the equity method.

(9)Property, plant and equipment

| | December 31, 2010 | | |
|---|---|---|---|
| | Original cost | Accumulated depreciation | Net book value |
| Land | $ 4,085,467 | $ - | $ 4,085,467 |
| Buildings and improvements | 120,125,861 | ( 23,146,020) | 96,979,841 |
| Machinery | 190,502,643 | ( 74,073,447) | 116,429,196 |
| Molding equipment | 4,473,691 | ( 2,825,733) | 1,647,958 |
| Testing equipment | 22,981,119 | ( 14,342,521) | 8,638,598 |
| Furniture and fixtures | 13,982,903 | ( 8,997,090) | 4,985,813 |
| Tooling equipment | 3,329,030 | ( 1,542,820) | 1,786,210 |
| Miscellaneous equipment | 31,796,808 | ( 15,622,119) | 16,174,689 |
| Prepayments for equipment and construction in progress | 26,642,156 | - | 26,642,156 |
| | $ 417,919,678 | ($ 140,549,750) | 277,369,928 |
| Less: Accumulated impairment | | | ( 5,220,239) |
| | | | $ 272,149,689 |

| | December 31, 2011 | | |
|---|---|---|---|
| | Original cost | Accumulated depreciation | Net book value |
| Land | $ 4,225,808 | $ - | $ 4,225,808 |
| Buildings and improvements | 151,455,281 | ( 31,385,787) | 120,069,494 |
| Machinery | 246,249,077 | ( 85,373,074) | 160,876,003 |
| Molding equipment | 3,633,968 | ( 2,241,472) | 1,392,496 |
| Testing equipment | 24,948,040 | ( 14,378,776) | 10,569,264 |
| Furniture and fixtures | 15,863,541 | ( 10,252,415) | 5,611,126 |
| Tooling equipment | 3,270,354 | ( 1,340,102) | 1,930,252 |
| Miscellaneous equipment | 43,977,326 | ( 20,425,230) | 23,552,096 |
| Prepayments for equipment and construction in progress | 31,579,244 | - | 31,579,244 |
| | $ 525,202,639 | ($ 165,396,856) | 359,805,783 |
| Less: Accumulated impairment | | | ( 4,432,302) |
| | | | $ 355,373,481 |

The Group recognized impairment loss of $2,557,816 and $201,378 (shown as “impairment loss”) in 2010 and 2011, respectively.

(10)Intangible assets

1)Business acquisition

A. On January 1, 2010, the Company acquired from Sony Corporation a portion of its Mexico plant's production equipment and 90% ownership of its subsidiary, Sony BAJA California, S.A. BE C.V., for a cost of US$119,900 thousand.

B. In July, 2010, the Company's subsidiary, Foxconn Singapore Pte. Limited, acquired 90.1% ownership of its subsidiary, Sony Slovakia, SPOL. S R.O, for a cost of EUR$29,721 thousand.

C. In October, 2011, the Company's subsidiary, PCE Paragon Solutions kft., acquired from Cisco System, Inc. 100% ownership of its subsidiaries, Scientific-Atlanta Holdings BV and Scientific-Atlanta de Mexico S. de R.L. de C.V., for a cost of US$ 44,949 thousand.

D. Fair value information of acquired subsidiary

| | December 31 | |
|---|---|---|
| | 2010 | 2011 |
| Current assets | $ 28,005,606 | $ 339,826 |
| Property, plant and equipment | 9,627,690 | 835,604 |
| Goodwill | - | 483,316 |
| Other assets | 592,537 | 81,712 |
| Current liabilities | ( 32,157,918) | ( 237,353) |
| Other liabilities | ( 853,577) | ( 139,561) |
| Total purchase price | 5,214,338 | 1,363,544 |
| Less: Minority interest | ( 179,484) | - |
| Cash of subsidiary | ( 2,137,918) | ( 84,983) |
| Net assets of acquired subsidiary (less cash received ) | $ 2,896,936 | $ 1,278,561 |

The business acquisition in 2011 is still under the period of purchase price allocation. The Company has engaged experts to assist in identifying and evaluating the fair value of assets and liabilities. This will be allocated to the purchase price within one year after the acquisition date.

2) Goodwill

| | For the years ended December 31, | |
|---|---|---|
| | 2010 | 2011 |
| Net book value, January 1 | $ 1,317,381 | $ 215,474 |
| Increase in current year | - | 483,316 |
| Impairment loss | ( 944,174) | - |
| Cumulative translation adjustments | ( 157,733) | ( 3,524) |
| Net book value, December 31 | $ 215,474 | $ 695,266 |

A. The above amount mainly represents goodwill arising from the company's subsidiary's acquisition of Chi Mei Communication System, Inc. and Scientific-Atlanta de Mexico S. de R.L. de C.V. in

2005 and 2011, respectively.

B. The Company's subsidiary recognized impairment loss on its goodwill amounting to $944,174 and $0 (shown as "impairment loss") in 2010 and 2011, respectively.

3) Other intangible assets - customer relationship

In February 2008, the Company's subsidiary, Foxteq Holding Inc. – Cayman, signed an asset purchase agreement with Sanmina-SCI Corporation, etc. for the acquisition of certain assets and liabilities of these companies. The acquisition cost was US$70 million. The acquisition was effective on July 7, 2008. The intangible assets – customer relationship arising from the above acquisition amounted to $965,100, as appraised by the Company and experts. The changes in the intangible assets - customer relationship for the years ended December 31, 2010 and 2011, respectively, are set forth below:

| | For the years ended December 31, | |
|---|---|---|
| | 2010 | 2011 |
| Net book value, January 1 | $ 476,011 | $ 139,824 |
| Amortization in current year | ( 317,721) | ( 139,824) |
| Cumulative translation adjustments | ( 18,466) | - |
| Net book value, December 31 | $ 139,824 | $ - |

(11)Other assets

| | December 31, | |
|---|---|---|
| | 2010 | 2011 |
| Land use rights | $ 20,268,938 | $ 21,300,084 |
| Others | 5,371,548 | 5,050,498 |
| | $ 25,640,486 | $ 26,350,582 |

For the years ended December 31, 2010 and 2011, the land use rights were as follows:

| | For the years ended December 31, | |
|---|---|---|
| | 2010 | 2011 |
| Net book value, January 1 | $ 21,088,073 | $ 20,268,938 |
| Increase in current year | 966,559 | 2,545,301 |
| Disposal in current year | - | ( 1,855,833) |
| Amortization in current year | ( 458,676) | ( 382,443) |
| Transfer in current year | ( 467,725) | - |
| Cumulative translation adjustments | ( 859,293) | 724,121 |
| Net book value, December 31 | $ 20,268,938 | $ 21,300,084 |

(12)Short-term loans

| | December 31, 2010 | December 31, 2011 |
|---|---|---|
| Credit loans | $ 132,466,070 | $ 189,861,503 |
| Secured loans | 67,390,944 | 70,661,246 |
| | $ 199,857,014 | $ 260,522,749 |
| Interest rates per annum | 0.013%~2.4544% | 0.55%~3.6% |

(13)Short-term notes and bills

| | December 31, 2010 | December 31, 2011 |
|---|---|---|
| Commercial paper | $ 9,600,000 | $ 8,000,000 |
| Less: unamortized discounts | ( 8,712) | ( 10,688) |
| | $ 9,591,288 | $ 7,989,312 |
| Interest rates per annum | 0.71%~0.788% | 0.998%~1.158% |

(14)Accrued expenses

| | December 31, 2010 | December 31, 2011 |
|---|---|---|
| Awards and salaries payable | $ 17,615,943 | $ 25,818,394 |
| Royalty fees payable | 10,635,704 | 19,727,839 |
| Employees' bonuses payable | 5,555,128 | 5,874,552 |
| Consumption goods expense payable | 1,093,692 | 4,442,314 |
| Business Tax (VAT) payable | 3,222,349 | 3,220,579 |
| Welfare fees payable | 3,103,545 | 2,786,106 |
| Tax payable (excluding VAT) | 1,491,494 | 2,507,583 |
| Shipping fees payable | 1,925,048 | 2,363,450 |
| Fees payable for tooling | 996,313 | 1,131,722 |
| Others | 13,459,590 | 19,450,346 |
| | $ 59,098,806 | $ 87,322,885 |

Please see Note 4(22) for information on "Employees' bonuses".

(15)Income tax

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

| | December 31, 2010 | December 31, 2011 |
|---|---|---|
| Income tax expense | $ 16,004,564 | $ 20,601,567 |
| Changes in deferred income tax | 3,274,357 | 5,042,428 |
| Less: Prepaid income tax and income tax withheld | ( 7,119,490) | ( 6,673,379) |
| Effect of tax rate different from the U.S. branch | ( 62,925) | ( 49,793) |
| Over provision of prior years' income tax | 1,044,992 | ( 556,981) |
| Add: Income tax payable for prior years | 1,484,506 | 1,575,661 |
| Income tax payable | $ 14,626,004 | $ 19,939,503 |

2) As of December 31, 2010 and 2011, the deferred income tax assets and liabilities were as follows:

| | December 31, 2010 | December 31, 2011 |
|---|---|---|
| Deferred income tax assets | $ 5,080,847 | $ 10,150,273 |
| Deferred income tax liabilities | ($ 3,900,605) | ($ 3,927,601) |

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

| | December 31, 2010 | | December 31, 2011 | |
|---|---|---|---|---|
| | Amount | Tax effect | Amount | Tax effect |
| Current items: | | | | |
| Allowance for sales allowances | $ - | $ - | $ 1,385,030 | $ 235,455 |
| Reserve for inventory obsolescence and market price decline | 6,395,663 | 1,164,258 | 8,100,008 | 1,425,601 |
| Unrealized exchange losses | 1,171,020 | 155,847 | 1,109,138 | 83,458 |
| Product warranty | 12,455,882 | 2,117,500 | 19,312,929 | 3,298,507 |
| Allowance for doubtful accounts | 2,128,053 | 475,083 | - | - |
| Unrealized expense | - | - | 14,755,755 | 2,829,602 |
| Others | 677,416 | 121,555 | 610,818 | 143,796 |
| | $22,828,034 | $ 4,034,243 | $45,273,678 | $ 8,016,419 |

| | December 31, | | | |
|---|---|---|---|---|
| | 2010 | | 2011 | |
| | Amount | Tax effect | Amount | Tax effect |
| Non-current items: | | | | |
| Reserve for pension cost | $ 861,370 | $ 146,739 | $ 875,352 | $ 148,867 |
| Foreign investment income accounted for under the equity method | ( 22,944,738) | ( 3,900,605) | ( 24,413,045) | ( 3,927,601) |
| Difference from finance and tax due to depreciation expense | - | - | 3,813,275 | 957,037 |
| Others | 5,776,891 | 899,867 | 5,784,156 | 1,027,950 |
| | ($16,306,477) | ($ 2,853,999) | ($13,940,262) | ($ 1,793,747) |

4) As of December 31, 2011, the Company's income tax returns have been approved by the R.O.C. Tax Authority through 2009.

(16) Bonds payable

| | December 31, | |
|---|---|---|
| | 2010 | 2011 |
| Convertible Bonds Payable | | |
| 2006 1st domestic convertible bonds payable | $ 12,039,400 | $ - |
| 2010 1st unsecured euro convertible bonds payable | 31,251,000 | 31,251,000 |
| Less: Discount on bonds payable | ( 1,946,755) | ( 1,260,384) |
| Exchange loss | ( 1,988,874) | ( 931,839) |
| | 39,354,771 | 29,058,777 |
| Corporate Bonds Payable | | |
| First unsecured corporate bonds issue in 2005 | 5,500,000 | 5,500,000 |
| First debenture issue of 2008 | 5,180,000 | - |
| First debenture issue of 2009 | 6,820,000 | 6,820,000 |
| First debenture issue of 2010 | 6,000,000 | 6,000,000 |
| First debenture issue of 2011 | - | 6,000,000 |
| Second debenture issue of 2011 | - | 7,050,000 |
| Third debenture issue of 2011 | - | 4,950,000 |
| | 23,500,000 | 36,320,000 |
| Total | 62,854,771 | 65,378,777 |
| Less: Current portion | ( 17,219,400) | ( 3,000,000) |
| Bonds payable – long-term | $ 45,635,371 | $ 62,378,777 |

1) 2006 1st domestic convertible bonds payable

A. On August 30, 2006, following the approval from the SFB, the Company issued domestic zero coupon 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 bondholders may require the Company to redeem any bond at face value three years after the issuance. On November 10, 2009, bondholders have redeemed total of $5,960,600.

C. The 2006 1st domestic convertible bonds payable had been retired on November 10, 2011 without converting to common stocks. The unexercised conversion right in the amount of $1,195,200 recognized in "Capital reserve from conversion right" had been reclassified to "Paid-in capital in excess of par value of common stocks". Additionally, the Company had redeemed the unexercised conversion right in the amount of $12,039,400.

2) 2010 1st unsecured euro convertible bonds

A. On August 1, 2010, following the approval from the SFB, the Company issued 1st unsecured euro zero coupon convertible bonds in the amount of US$1 billon. These convertible bonds cover a period of three years from October 12, 2010 to October 12, 2013.

B. The conversion price shall be adjusted based on the terms of the convertible bonds. As of December 31, 2010, the convertible bonds have not been converted. The initial conversion price was $137.34 (in dollars) per share with a fixed exchange rate applicable on bonds of NTD$31.251=USD$1.

C. Under the terms of the convertible bonds, all the stock repurchased, previously redeemed or converted bonds will be retired and not to be re-issued.

D. Under the terms of the convertible bonds, the rights and obligations of the new shares converted from convertible bonds are the same as those of the issued and outstanding common stock.

E. The effective interest rate of the bonds was 2.02%.

F. The fair value of conversion right in the amount of $2,034,440 was separated from bonds payable at issuance date, and was recognized in "Capital reserve from conversion right" in accordance with SFAS No. 36.

3) First unsecured corporate bonds issue in 2005

A. On September 14, 2005, following the approval from the SFB, the Company issued domestic unsecured bonds in the amount of $11,500,000. As of December 31, 2010, Bond Aa to Af and Bond Ba to Bf had been redeemed. The amount of the unredeemed bonds is $5,500,000. The terms of these domestic unsecured bonds are summarized as follows:

| Type of bonds | Issuance date | Period | Amount | Normal interest rate | Payment term |
|---|---|---|---|---|---|
| Bond Ca to Cf | September 2005 | 7 years | $ 500,000 | 2.25% | Principal is due at maturity. Interest is paid annually at simple interest rate. |
| Bond Da to De | September 2005 | 10 years | $ 500,000 | 2.37% | Principal is due at maturity. Interest is paid annually at simple interest rate. |

B. 2005 1st unsecured corporate bonds payable, Bond Ca to Cf, had been reclassified to "Current liabilities" in the third quarter of 2011.

4) First debenture issue of 2008

A. On December 9, 2008, following the approval from the SFB, the Company issued domestic unsecured bonds in the amount of $5,180,000. The terms of these 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. |

B. 2008 1st unsecured corporate bonds payable had been redeemed on December 19, 2011.

5) First debenture issue of 2009

On January 12, 2009, following the approval from the SFB, the Company issued domestic unsecured bonds in the amount of $6,820,000. The terms of these domestic unsecured bonds are summarized as follows.

| Issuance date | Period | Amount | Nominal interest rate | Payment term |
|---|---|---|---|---|
| October 2009 | 5 years | $ 6,820,000 | 1.72% | Pay half of principal each in the fourth and fifth year. Interest is paid annually at simple interest rate. |

6) First debenture issue of 2010

On December 17, 2010, following the approval from the SFB, the Company issued domestic unsecured bonds in the amount of $6,000,000. The terms of these domestic unsecured bonds are summarized as follows.

| Issuance date | Period | Amount | Nominal interest rate | Payment term |
|---|---|---|---|---|
| December 2010 | 5 years | $ 6,000,000 | 1.43% | Pay half of principal each in the fourth and fifth year. Interest is paid annually at simple interest rate. |

7) First debenture issue of 2011

On January 7, 2011, following the approval from the SFB, the Company issued domestic unsecured bonds in the amount of $6,000,000. The terms of these domestic unsecured bonds are summarized as follows.

| Issuance date | Period | Amount | Nominal interest rate | Payment term |
|---|---|---|---|---|
| March 2011 | 5 years | $ 6,000,000 | 1.47% | Pay half of principal each in the fourth and fifth year. Interest is paid annually at simple interest rate. |

8) Second debenture issue of 2011

On June 1, 2011, following the approval from the SFB, the Company issued domestic unsecured bonds in the amount of $7,050,000. The terms of these domestic unsecured bonds are summarized as follows.

| Type of bonds | Issuance date | Period | Amount | Normal interest rate | Payment term |
|---|---|---|---|---|---|
| Bond A | June 2011 | 5 years | $ 3,000,000 | 1.43% | Principal is due at maturity. Interest is paid annually at simple interest rate. |
| Bond B | June 2011 | 7 years | $ 2,650,000 | 1.66% | Principal is due at maturity. Interest is paid annually at simple interest rate. |
| Bond C | June 2011 | 10 years | $ 1,400,000 | 1.82% | Principal is due at maturity. Interest is paid annually at simple interest rate. |

9) Third debenture issue of 2011

On July 6, 2011, following the approval from the SFB, the Company issued domestic unsecured bonds in the amount of $4,950,000. The terms of these domestic unsecured bonds are summarized as follows.

| Issuance date | Period | Amount | Nominal interest rate | Payment term |
|---|---|---|---|---|
| July 2011 | 5 years | $ 4,950,000 | 1.51% | Principal is due at maturity. Interest is paid annually at simple interest rate. |

(17) Long-term loans

| Institution | Loan period | December 31, 2010 | Limit |
| --- | --- | --- | --- |
| Mizuho Corporate Bank Ltd., etc. syndicated loan | 2008/8/21~2011/8/21 | $ 3,786,900 | (USD 130,000,000) |
| 〃 | 2008/8/21~2013/8/21 | 11,797,650 | (USD 405,000,000) |
| 〃 | 2008/9/11~2013/9/11 | 14,565,000 | (USD 500,000,000) |
| ING Bank, N.V. etc. syndicated loan | 2010/10/22~2015/10/22 | 5,643,400 | (EUR 145,000,000) |
| 〃 | 〃 | 10,313,800 | (EUR 265,000,000) |
| | | 46,106,750 | |
| Less: Current portion | | ( 3,786,900) | |
| | | $ 42,319,850 | |
| Interest rate | | 0.6744%~1.5360% | |

| Institution | Loan period | December 31, 2011 | Limit |
| --- | --- | --- | --- |
| Mizuho Corporate Bank Ltd., etc. syndicated loan | 2008/8/21~2013/8/21 | $ 12,263,400 | (USD 405,000,000) |
| 〃 | 2008/9/11~2013/9/11 | 13,626,000 | (USD 450,000,000) |
| 〃 | 2011/3/31~2014/3/31 | 19,920,600 | (JPY 51,000,000,000) |
| ING Bank, N.V. etc. syndicated loan | 2010/10/22~2015/10/22 | 5,681,100 | (EUR 145,000,000) |
| China Development Industrial Bank | 2011/8/12~2014/8/12 | 2,000,000 | (NTD 2,000,000,000) |
| First Commercial Bank | 2011/11/30~2026/11/30 | 109,000 | (NTD 2,500,000,000) |
| | | $ 53,600,100 | |
| Interest rate | | 0.7729%~1.8040% | |

1) Foxconn (Far East) Ltd. - Cayman, a subsidiary of the Company 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 billion. The Company is the guarantor of the loan.
2) The Company entered into a syndicated credit facility agreement with Mizuho Corporate Bank Ltd. etc. as the lead bank and obtained a credit line in the amount of JPY51 billion.
3) Foxconn Slovakia, SPOL. S R.O., a subsidiary of the Company entered into a syndicated credit facility agreement with ING Bank N.V. etc. as the lead bank and obtained a credit line in the amount of EUR145 million. The Company is the guarantor of the loan.
4) The Company entered into a comprehensive credit contract with China Development Industrial Bank on August 3, 2011, and obtained a credit line in the amount of $2 billion.
5) A subsidiary of the Company, Syntrend Creative Park Co., Ltd., had entered into a comprehensive credit contract with First Commercial Bank on April 18, 2011, and obtained a credit line in the amount of $2.5 billion.

6) The original syndicated loan over twelve months has been reclassified as long-term loan.

7) Throughout the term of Mizuho Corporate Bank Ltd., China Development Industrial Bank, First Commercial Bank, etc. syndicated term loan agreement, the Group shall maintain the agreed financial ratios, to be tested semi-annually and annually on an audited consolidated basis. The Company has not breached any of the above financial ratio commitments under the syndicated loan agreement.

(18)Retirement plan

(1) The Company participates in a defined benefit pension plan in accordance with the Labor Standards Law, covering all regular employees for services provided prior to July 1, 2005, and employees who choose to remain in the benefit pension plan subsequent to the enforcement of the Labor Pension Act on July 1, 2005. The Company contributes on a monthly basis an amount equal to 2.1% of the employees' monthly salaries and wages to the retirement fund deposited with Bank of Taiwan, the trustee, under the name of the independent retirement fund committee.

A. In 2010 and 2011, the related actuarial assumptions used to calculate the pension liability were as follows:

| | 2010 | 2011 |
|---|---|---|
| Discount rate | 1.75% | 1.90% |
| Rate of increase in compensation | 3.00% | 3.00% |
| Expected return rate on plan assets | 1.75% | 1.90% |

B. Funded status of the pension plan

| | December 31, 2010 | December 31, 2011 |
|---|---|---|
| Benefit obligation: | | |
| Vested benefit obligation | ($ 201,609) | ($ 274,377) |
| Non-vested benefit obligation | ( 960,994) | ( 1,081,451) |
| Accumulated benefit obligation | ( 1,162,603) | ( 1,355,828) |
| Additional benefits based on future salary increases | ( 501,714) | ( 552,906) |
| Projected benefit obligation | ( 1,664,317) | ( 1,908,734) |
| Fair value of plan assets | 601,691 | 621,909 |
| Funded status | ( 1,062,626) | ( 1,286,825) |
| Unrealized net transition obligation | 5,248 | 2,735 |
| Unrecognized net pension loss | 198,828 | 412,748 |
| Accrued pension cost | ($ 858,550) | ($ 871,342) |
| Vested benefit | $ 221,401 | $ 302,126 |

C. In 2010 and 2011, the details of net pension cost were as follows:

| | 2010 | 2011 |
|---|---|---|
| Service cost | $ 36,612 | $ 36,377 |
| Interest cost | 33,067 | 29,126 |
| Expected return on plan assets | ( 12,603) | ( 10,530) |
| Amortization of unrecognized net transition obligation | 2,513 | 2,513 |
| Amortization of unrecognized pension cost | - | 2,314 |
| Net periodic pension cost | $ 59,589 | $ 59,800 |

2) Effective July 1, 2005, in accordance with the Labor Pension Act, the Company has a defined contribution employee retirement plan covering all domestic employees. The Company contributes monthly an amount based on 6% of employees' monthly salaries and wages to the employees' personal pension accounts with the Bureau of Labor Insurance. Employees may choose to receive pension on a monthly basis or as lump sum payment upon retirement in which the amount is the account balance plus accumulated investment gains. The pension expenses under this plan amounted to $273,623 and $301,182 for the years ended December 31, 2010 and 2011, 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. The plan is administered by the government of mainland China and the subsidiaries do not have further pension liabilities.

4) As of December 31, 2010 and 2011, the subsidiaries which participated in defined contribution pension plans recognized reserve according to the respective local laws for retirement plan in the amount of $232,462 and $192,958, respectively. Pension expenses in the amount of $5,082,129 and $7,598,554 were recognized for the years ended December 31, 2010 and 2011, respectively.

(19) Capital stock

1) As of December 31, 2011, the Company's authorized shares were 12,230,000 thousand shares (including 200 million shares reserved for stock warrants or bonds issued with detachable warrants) and the issued and outstanding common stock were 10,689,097 thousand shares with a par value of $10 (in dollars) per share.

2) On June 8, 2011, the Company's shareholders adopted a resolution to increase the authorized shares to 12,230,000 thousand shares and approved employees' stock bonus amounting to $5,555,128 for 2010. The employee stock bonus of 61,724 thousand shares was determined based on the closing price of $90 (in dollars) on June 7, 2011, the previous day of the 2011 shareholders' meeting after taking into account the effects of ex-rights and ex-dividends. In addition, the Company shareholders adopted a resolution to issue stock dividends at par value amounting to $9,661,248.

3) Pursuant to the resolution adopted at the stockholders' meeting held on September 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 issuance amounted to USD347,250,000, and 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 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 December 31, 2011, 160,115,000 units of GDRs were outstanding, which represents 320,229 thousand shares of common stock.

(20) Share-based payment - employee compensation plan

As of December 31, 2010 and 2011, 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 | 〃 |
| 〃 | July 8, 2011 | 267,110,393 | 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) |
| 〃 | October 29, 2009 | 26,161,489 | - | - |
| 〃 | April 27, 2010 | 9,435,264 | - | - |
| 〃 | November 19, 2010 | 25,616,428 | - | - |
| 〃 | December 29, 2010 | 35,573,029 | - | - |
| 〃 | April 29, 2011 | 3,302,725 | - | - |
| 〃 | July 8, 2011 | 5,138,266 | - | - |
| 〃 | October 18, 2011 | 21,948,624 | - | - |
| 〃 | December 29, 2011 | 62,423,773 | 1 ~ 2 years | Note (5) |

Note:

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

(2) Of the shares granted, 2,737,718 shares cannot be sold within 1 to 3 years from the grant date.

(3) Of the shares granted, 407,000 shares cannot be sold within 1 to 2 years from the grant date.

(4) Of the shares granted, 20,362,078 shares cannot be sold within 1 to 3 years from the grant date.

(5) Of the shares granted, 14,017,098 shares cannot be sold within 1 to 2 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 |
| July 8, 2011 | 3.62 | 3.62 | 37% | - | 0.297%~ 0.667% | 0.11 |

For the years ended December 31, 2010 and 2011, the weighted-average exercise price of employee stock options outstanding were US$1.23 and US$0 (in dollars) per share, respectively, and expenses incurred on employee stock options transactions were $126,647 (US$4,018 thousand) and $404,788 (US$13,773 thousand), respectively. Details of the employee stock options are set forth below:

| | For the years ended December 31, | |
|---|---|---|
| Employee Stock Options (In shares) | 2010 | 2011 |
| Options outstanding at beginning of year | 264,831,013 | 227,459,105 |
| Options granted | - | 256,159,719 |
| Options exercised | ( 33,901,600) | - |
| Options revoked | ( 3,391,908) | ( 230,105,486) |
| Options canceled | ( 78,400) | ( 451,576) |
| Options outstanding at end of year | 227,459,105 | 253,061,762 |
| Options exercisable at end of year | 171,517,825 | 1,600,000 |

2) Share appreciation rights

There is no stock appreciation rights outstanding as of December 31, 2011. For the year ended December 31, 2010, the range of exercise price of stock appreciation rights outstanding were HK$3.96～HK$25.65. For the year ended December 31, 2010, expenses incurred on stock appreciation rights transactions were $347 (US$11 thousand).

3) Other share-based payment plans

These share-based payments were granted to employees. For the years ended December 31, 2010 and 2011, expenses incurred on other share-based payments were $1,636,235 (US$51,911 thousand) and $1,434,996 (US$48,826 thousand), respectively.

(21) Capital reserve

1) Pursuant to the R.O.C. Company Law, capital reserve arising from paid-in capital in excess of par value on issuance of common stocks and donations can be used to cover accumulated deficit or to issue new stocks or cash to shareholders in proportion to their share ownership, provided that the Company has no accumulated deficit. Further, the R.O.C. Securities and Exchange Law requires that the amount of capital reserve to be capitalized mentioned above should not exceed 10% of the paid-in capital each year. Capital reserve should not be used to cover accumulated deficit unless the legal reserve is insufficient

2) Please see Note 4 (16) for information on "Capital reserve from conversion right".

(22) Retained earnings

1) In accordance with the Company's Articles of Incorporation, current year's earnings must be distributed in the following order:

A. Covering accumulated deficit;

B. Setting aside as legal reserve equal to 10% of current year's net income after tax and distribution pursuant to clause (A);

C. Setting aside a special reserve in accordance with applicable legal and regulatory requirement;

D. 8% as bonuses to employees; qualified employees include employees of affiliates per criteria set by Board of Directors; and

E. the remainder 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. The proposal should be resolved in the Meeting of the Stockholders. Dividends may be distributed in the form of cash or shares, or a combination of both, provided, however, that cash dividends distributed in respect of any fiscal year shall not exceed 90 percent of total dividends to stockholders.

2) Except for covering accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share ownership, the legal reserve shall not be used for any other purpose. The use of legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the balance of the reserve exceeds 25% of the Company's paid-in capital.

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

| | December 31, 2010 | December 31, 2011 |
|---|---|---|
| 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 | 191,629,294 | 241,745,894 |
| Not subjected to additional 10% corporate income tax | 77,154,551 | 81,590,999 |
| | $ 270,947,354 | $ 325,500,402 |

4) The details of imputation system were as follows:

| | December 31, 2010 | December 31, 2011 |
|---|---|---|
| Balance of stockholders deductible tax account | $ 29,284,069 | $ 36,036,198 |

| | 2010 (Actual) | 2011 (Estimated) |
|---|---|---|
| Tax deductible rate of earnings distribution | 13.93% | 14.27% |

5) The appropriations of 2009 and 2010 earnings had been resolved at the stockholders' meeting on June 8, 2010 and June 8, 2011, respectively. Details are summarized below:

| | 2009 | | 2010 | |
|---|---|---|---|---|
| | Amount | Dividends per share (in dollars) | Amount | Dividends per share (in dollars) |
| Legal reserve | $ 7,568,511 | $ - | $ 7,715,455 | $ - |
| Stock dividends | 10,294,718 | 1.2 | 9,661,248 | 1.0 |
| Cash dividends | 17,157,864 | 2.0 | 9,661,248 | 1.0 |
| | $ 35,021,093 | $ 3.2 | $ 27,037,951 | $ 2.0 |

As of the report date, the distribution of 2011 earnings had not been approved by the board of directors. The information on distribution of earnings will be posted on the "Market Observation Post System" of the TSEC.

6) The estimated amounts of employees' bonus and directors' and supervisors' remuneration are $5,555,128 and $0 for 2010, and $5,874,552 and $0 for 2011, respectively, based on a certain percentage (8% and 0%) of net income, and is recognized as operating costs and expenses in current year. The information on 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 amounting to $5,555,128 for 61,724 thousand shares were determined based on the closing price of the Company's common stock, $90 (in dollars), on June 7, 2011, the previous day of the 2011 shareholders' meeting after taking into account the effects of ex-rights and ex-dividends.

(23) Earnings per common share

| | For the year ended December 31, 2010 | | | | |
|---|---|---|---|---|---|
| | 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 | $ 91,477,208 | $75,472,644 | 10,626,189 | $ 8.61 | $ 7.10 |
| Minority interest | 1,281,920 | 1,681,907 | | 0.12 | 0.16 |
| Net income attributable to equity holders of the Company | $ 92,759,128 | $77,154,551 | | $ 8.73 | $ 7.26 |
| Diluted earnings per share: | | | | | |
| Consolidated net income | $ 91,477,208 | $75,472,644 | | $ 8.32 | $ 6.87 |
| Minority interest | 1,281,920 | 1,681,907 | | 0.12 | 0.15 |
| Dilutive effect of stock equivalents: | | | | | |
| Convertible bonds-overseas | 149,306 | 123,924 | 227,538 | 0.01 | 0.01 |
| Convertible bonds-domestic | - | - | 82,416 | - | - |
| Employees' bonus-2010 | - | - | 52,951 | - | - |
| Net income attributable to equity holders of the Company | $ 92,908,434 | $77,278,475 | 10,989,094 | $ 8.45 | $ 7.03 |

| | For the year ended December 31, 2011 | | | | |
|---|---|---|---|---|---|
| | 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 | $102,536,200 | $81,934,633 | 10,661,194 | $ 9.62 | $ 7.68 |
| Minority interest | ( 822,095) | ( 343,634) | | ( 0.08) | ( 0.03) |
| Net income attributable to equity holders of the Company | $101,714,105 | $81,590,999 | | $ 9.54 | $ 7.65 |
| Diluted earnings per share: | | | | | |
| Consolidated net income | $102,536,200 | $81,934,633 | | $ 9.35 | $ 7.47 |
| Minority interest | ( 822,095) | ( 343,634) | | ( 0.08) | ( 0.03) |
| Dilutive effect of stock equivalents: | | | | | |
| Convertible bonds-overseas | 645,094 | 535,428 | 227,538 | 0.06 | 0.05 |
| Employees' bonus-2011 | - | - | 77,949 | - | - |
| Net income attributable to equity holders of the Company | $102,359,199 | $82,126,427 | 10,966,681 | $ 9.33 | $ 7.49 |

1) The number of shares had retroactively been adjusted by the stock dividends as of December 31, 2011.

2) Effective January 1, 2008, as employees' bonus could be distributed in the form of stock, the diluted EPS computation shall assume that distribution will be in the form of stocks 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, the basic EPS shall be calculated based on the weighted-average number of common shares outstanding during the reporting year, which shall include the shares of employees' stock bonus from the appropriation of prior year earnings, which have already been resolved at the stockholders' meeting held in the reporting year.

(24)Personnel, depreciation and amortization expenses

| | For the years ended December 31, | |
|---|---|---|
| | 2010 | 2011 |
| Cost of sales | | |
| Personnel expenses | | |
| Salaries | $ 78,072,826 | $ 110,968,317 |
| Labor and health insurances | 2,142,703 | 5,386,897 |
| Pension | 3,934,686 | 6,207,278 |
| Others | 1,546,978 | 2,198,788 |
| | $ 85,697,193 | $ 124,761,280 |
| Depreciation | $ 27,414,533 | $ 35,896,812 |
| Amortization | $ 2,724,007 | $ 3,240,287 |
| Operating expenses | | |
| Personnel expenses | | |
| Salaries | $ 44,196,400 | $ 50,821,014 |
| Labor and health insurances | 2,244,723 | 2,443,243 |
| Pension | 1,480,655 | 2,112,878 |
| Others | 680,017 | 1,006,995 |
| | $ 48,601,795 | $ 56,384,130 |
| Depreciation | $ 9,447,908 | $ 9,764,585 |
| Amortization | $ 1,544,094 | $ 2,554,057 |

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) | " |
| Zhen Ding Technology Holding Limited ( Formerly Foxconn Advanced Technology, Ltd.-Cayman) (ZDT-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 |
| Chimei Innolux Corporation and subsidiaries (Chimei Innolux) | Same major shareholder |
| Foxconn (Far East) Ltd. | Subsidiary of the Company |
| Foxconn Slovakia, SPOL. S R.O. | Indirect investment subsidiary of the Company |

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 years ended December 31, 2010 and 2011.

2) Significant transactions and balances with related parties

A. Sales

| | For the years ended December 31, | | | |
|---|---|---|---|---|
| | 2010 | % | 2011 | % |
| FTCS | $ 90,038,838 | 3 | $ 83,882,312 | 2 |
| Chimei Innolux | 11,631,750 | 1 | 18,552,703 | 1 |
| CyberTAN | 4,738,507 | - | 6,757,308 | - |
| Others | 2,004,665 | - | 1,837,644 | - |
| | $ 108,413,760 | 4 | $ 111,029,967 | 3 |

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

(2) The Group sold materials to the above related parties for processing and repurchased the finished goods. The sales amount of materials and repurchase price of finished goods were offset against each other and shown at net amount in the financial statements.

B. Purchases

| | For the years ended December 31, | | | |
|---|---|---|---|---|
| | 2010 | % | 2011 | % |
| FTCS | $ 23,716,438 | 1 | $ 36,978,255 | 1 |
| ZDT-Cayman | 20,983,543 | 1 | 27,340,972 | 1 |
| Chimei Innolux | 16,079,770 | 1 | 16,890,277 | 1 |
| PIICS | 6,375,994 | - | 5,748,369 | - |
| CyberTAN | 3,932,941 | - | 2,615,705 | - |
| Others | 553,305 | - | 862,307 | - |
| | $ 71,641,991 | 3 | $ 90,435,885 | 3 |

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

| | December 31, | | | |
|---|---|---|---|---|
| | 2010 | % | 2011 | % |
| FTCS | $ 12,614,654 | 3 | $ 15,187,492 | 3 |
| Chimei Innolux | 4,248,219 | 1 | 7,183,713 | 2 |
| CyberTAN | 1,107,318 | - | 1,832,810 | - |
| Others | 858,309 | - | 1,087,796 | - |
| | 18,828,500 | 4 | 25,291,811 | 5 |
| Less: Allowance for doubtful accounts | ( 149,163) | | - | |
| | $ 18,679,337 | | $ 25,291,811 | |

D. Prepayment

| | December 31, | |
|---|---|---|
| | 2010 | 2011 |
| FITI | $ 116,610 | $ 44,225 |

E. Other receivables

The Group purchased materials on behalf of Chimei Innolux and FTCS, etc. As of December 31, 2010 and 2011, other receivables amounted to $1,501,924 and $1,565,834, respectively.

F. Accounts payable - related parties

| | December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2010 | | % | 2011 | | % |
| FTCS | $ | 13,672,611 | 3 | $ | 15,986,100 | 3 |
| ZDT-Cayman | | 4,589,395 | 1 | | 6,424,374 | 1 |
| Chimei Innolux | | 2,708,189 | 1 | | 3,046,793 | 1 |
| PIICS | | 1,691,091 | 1 | | 1,917,629 | - |
| Others | | 874,926 | - | | 1,394,281 | - |
| | $ | 23,536,212 | 6 | $ | 28,769,177 | 5 |

As of December 31, 2010 and 2011, a portion of accounts payable to FTCS in the amount of $6,973,252 and $3,453,063, respectively, pertains to purchases of materials made by FTCS on behalf of the Group.

G. Property transactions

| For the year ended December 31, 2010 | | | | |
|---|---|---|---|---|
| Counterparty | Transaction | Sales / purchase price | Gain on disposal | Receivables/(payables) at December 31, 2010 |
| FTCS, Chimei Innolux, ZDT-Cayman, PIICS | Sale of fixed assets | $ 441,896 | $ 6,188 | $ 263,301 |
| FTCS, Chimei Innolux, ZDT-Cayman, PIICS, CyberTAN and FITI | Acquisition of fixed assets | 626,407 | - | ( 219,590) |

| For the year ended December 31, 2011 | | | | |
|---|---|---|---|---|
| Counterparty | Transaction | Sales / purchase price | Gain on disposal | Receivables/(payables) at December 31, 2011 |
| FTCS, Chimei Innolux, ZDT-Cayman, PIICS and CyberTAN | Sale of fixed assets | $ 808,617 | $ 2,043 | $ 312,527 |
| FTCS, Chimei Innolux, ZDT-Cayman, PIICS, FITI and ZDT-Cayman | Acquisition of fixed assets | 389,431 | - | ( 93,543) |

H. Guarantees

Endorsements and guarantees provided for the related parties as of December 31, 2010 and 2011 are as follows:

| | December 31, 2010 | December 31, 2011 |
|---|---|---|
| Foxconn (Far East) Ltd. | $ 30,208,545 | $ 25,879,995 |
| | (USD1,035,000 thousand) | (USD 855,000 thousand) |
| Foxconn Slovakia SPOL. S R.O. | $ 27,177,948 | $ 20,603,999 |
| | (EUR 710,000 thousand) | (EUR 526,000 thousand) |

I. The salaries/rewards information of key management:

| | For the years ended December 31, | |
|---|---|---|
| | 2010 | 2011 |
| Salaries and bonuses | $ 166,897 | $ 166,889 |
| Service execution fees | 960 | 960 |
| Directors' and supervisors' remuneration and employees' bonuses | 80,344 | 362,242 |
| Share-based payment expenses | 103,228 | 132,255 |
| Total | $ 351,429 | $ 662,346 |

(A) Salaries and bonuses include regular wages, special responsibility allowances, pensions, severance pay, various bonuses, rewards, etc.

(B) Service execution fees include travel or transportation allowances, special expenditures, various allowances, housing and vehicles offering, etc.

(C) Directors' and supervisors' remuneration and employees' bonuses were those amounts estimated and accrued in the statement of income for the current year.

(D) Share-based payment expenses were the compensation costs accounted for under R.O.C SFAS No. 39.

(E) The relevant information above is shown in the Company's annual report.

6. PLEDGED ASSETS

As of December 31, 2010 and 2011, the assets pledged as collateral were as follows:

| | | December 31, | |
|---|---|---|---|
| | | 2010 | 2011 |
| Assets | Nature | Book value | Book value |
| Time deposits and cash (shown as other financial assets -current) | Short-term loans and customs deposits | $ 58,290,032 | $ 46,741,750 |
| Time deposits and cash (shown as other financial assets non-current) | Short-term loans, bond deposit as security for court proceedings, security deposit for employment of foreign employees and customs deposits | 29,088 | 24,179 |
| Fixed assets -Land and buildings | Short-term loans | 87,869 | - |
| | | $ 58,406,989 | $ 46,765,929 |

7. COMMITMENTS AND CONTINGENT LIABILITIES

As of December 31, 2011, the Group's significant commitments and contingent liabilities were as follows:

1) The Company entered into several contracts for the acquisition of machinery with total value of approximately $20,514 million. As of December 31, 2011, the unpaid balance on these contracts amounted to $7,579 million.

2) As of December 31, 2011, the Company's subsidiaries' future minimum lease payments for factories and employees' dormitory were approximately $1,775 million as follows:

| Year | Amount | |
|---|---|---|
| 2012 | $ | 522 |
| 2013 | | 371 |
| 2014 | | 331 |
| 2015 | | 274 |
| 2016 and thereafter | | 277 |
| | $ | 1,775 |

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) The subsidiary, Syntrend Creative Park Co. Ltd., entered into a "Private Participation in Construction and Operation of Taipei Information Park and Parking Lots" contract with Taipei City Government, and the royalty shall be paid in accordance with the contract time schedule.

5) Mondis Technology Ltd. filed a lawsuit with the U.S. District Court for the Eastern District of Texas and requested this court to issue an injunction against the Company, alleging infringement, among others, of its patent on panel display and claimed indemnities for its losses. Mondis Technology Ltd. had made an out-of-court settlement with the Company on June 25, 2011 and an insignificant compensation has been paid. Thus, all proceedings of the lawsuit had been closed.

6) In November, 2008, Spansion Inc. requested the U.S. International Trade Commission (the "ITC") to conduct an investigation, alleging patent infringement that Samsung flashing IC was assembled into the Company's products. Spansion Inc. requested the U.S. ITC to issue an injunction to ban the Company's export of related products to the United States. Spansion Inc. has made an out-of-court settlement with Samsung on March 3, 2009. However, on March 1, 2009, Spansion Inc. filed for bankruptcy in the United States, and the bankruptcy court refused to approve their settlement. On October 22, 2010, ITC had announced that the Company was not involved in patent infringement for this case, and the litigation proceeding has been terminated.

8. SIGNIFICANT CATASTROPHE

1) On May 20, 2011, the Group's plant in Chengdu was set on fire due to explosion. Any losses caused by this explosion could be compensated by an accident insurance. This incident has no significant effect on the Company's operations and finances.

2) On September 27, 2011, the Group's plant in Yantai caught fire. This incident has no significant effect on the Company's operations and finances.

9. SUBSEQUENT EVENTS

1) On March 1, 2012, following the approval from the SFB, the Company issued the 2012 1st domestic unsecured bonds in the amount of $9,000,000.

2) On March 27, 2012, the Company's board of directors resolved for the Company to issue unsecured bonds in the amount up to $18,000,000, which can be issued in installments.

3) On March 27, 2012, the Company's board of directors resolved for the Company and its subsidiary, Foxconn (Far East) Ltd., to acquire 81,143 thousand shares of a listed company in Japan, Sharp Corporation, with total amount of JPY44,628,650 thousand.

10. OTHERS

1) Financial statement presentation:

Certain accounts in the 2010 consolidated financial statements were reclassified to conform with the 2011 consolidated financial statement presentation.

2) Fair value of financial instruments

| | December 31, 2010 | | | |
|---|---|---|---|---|
| | | 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 | $753,243,890 | $ - | $753,243,890 | A |
| Open-end funds | 15,000 | 15,000 | - | B |
| Available-for-sale financial assets | 14,705,573 | 14,705,573 | - | C |
| Financial assets carried at cost - non-current | 3,039,286 | - | - | D |
| Refundable deposits | 1,640,570 | - | 1,635,660 | E |
| Liabilities: | | | | |
| Financial liabilities with fair values equal to book values | 756,444,137 | - | 756,444,137 | A |
| Long-term bonds payable | 45,635,371 | - | 40,392,668 | F |
| Derivative financial instruments | | | | |
| Assets: | | | | |
| Forward exchange contracts | 70,049 | - | 70,049 | G |
| Liabilities: | | | | |
| Forward exchange contracts | 182,234 | - | 182,234 | G |
| Off-balance sheet financial instruments | | | | |
| Guarantees-USD | 30,208,545 (US$1,035,000 thousand) | - | 30,208,545 (US$1,035,000 thousand) | H |
| Guarantees-EUR | 27,177,948 (EUR$ 710,000 thousand) | - | 27,177,948 (EUR$ 710,000 thousand) | H |

| Non-derivative financial instruments | December 31, 2011 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 | $887,265,074 | $ - | $887,265,074 | A |
| Open-end funds | 24,412 | 24,412 | - | B |
| Available-for-sale financial assets | 5,464,606 | 5,464,606 | - | C |
| Financial assets carried at cost - non-current | 4,046,796 | - | - | D |
| Refundable deposits | 1,323,105 | - | 1,316,389 | E |
| Liabilities: | | | | |
| Financial liabilities with fair values equal to book values | 971,524,706 | - | 971,524,706 | A |
| Long-term bonds payable | 62,378,777 | - | 60,894,339 | F |
| Derivative financial instruments | | | | |
| Assets: | | | | |
| Forward exchange contracts | 45,917 | - | 45,917 | G |
| Liabilities: | | | | |
| Forward exchange contracts | 251,834 | - | 251,834 | G |
| Off-balance sheet financial instruments | | | | |
| Guarantees-USD | 25,879,995 (US$ 855,000 thousand) | - | 25,879,995 (US$ 855,000 thousand) | H |
| Guarantees-EUR | 20,603,999 (EUR$ 526,000 thousand) | - | 20,603,999 (EUR$ 526,000 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, short-term loans, notes and accounts payable, accrued expenses, current portion of long-term liabilities, other payables and other current liabilities.

B. For Open-ended funds, the fair values were determined based on the funds' net assets at December 31, 2010 and 2011.

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 as of December 31, 2010 and 2011.

D. As financial assets carried at cost are not quoted in an active market and their fair value cannot be measured reliably, they are measured at cost.

E. The fair value of refundable deposits is based on the present 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 as of December 31, 2010 and 2011.

F. The fair value of convertible bonds issued after December 31, 2005 is based on the present value of expected cash flow amount. The discount rate is the effective interest rate of convertible bonds in the current market, whose contractual terms are similar to those of convertible bonds issued by the Company.

G. The fair values of derivative financial instruments which include unrealized gain or loss on unsettled contracts were determined based on the amounts to be received or paid assuming that the contracts were settled as of the reporting date.

H. The fair value of guarantees was based on the contract amounts.

3) Credit risk of off-balance sheet financial instruments

Please see Note 5. 2) H.

4) Financial risk control

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

As for market risk, the goal is to optimize 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:

(1) The board of directors formulates and approves the 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;

(2) The legal department reviews and examines transaction agreements;

(3) The finance department makes recommendations with regard to transactions and is responsible for carrying them out;

(4) The accounting department manages the accounts;

(5) The audit department undertakes audits.

Under this framework, with its strict adherence to proper segregation of duties and adequate internal control procedures, the Group seeks to minimize the potential adverse effects on the Group's financial performance.

5) Material financial risk information

A. Market risk

(1) Foreign exchange risk:

The Group's major purchase and sale transactions are conducted in USD. The fair value changes along with the foreign exchange rate fluctuations. However, the amounts and periods of the Group's accounts receivable and accounts payable are roughly equivalent, so the market risk could mostly be offset. When temporary gap rises, the Group would enter into the forward contract to hedge the risk. Accordingly, the Group expects no material risk as a whole.

(2) Equity 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. However, the Group expects no significant securities price 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 the stop-loss amount of derivatives to reduce its futures market risk. As a result, there is no significant future 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 price risk:

The domestic convertible bonds issued by the Company are compound instruments, which include the conversion rights, call option, put option. 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 the stock price risk adequately.

(6) Certain transactions of the Group involve non-functional currencies which are exposed to exchange rate fluctuations. The information on foreign currency denominated monetary assets and liabilities which are significantly affected by exchange rate fluctuation is as follows:

(Foreign Currency: Functional Currency)

| | December 31 | | | |
|---|---|---|---|---|
| | 2010 | | 2011 | |
| | Foreign currency amount (In thousands) | Exchange rate | Foreign currency amount (In thousands) | Exchange rate |
| Financial Assets | | | | |
| Monetary item | | | | |
| USD : NTD | $ 12,742,002 | 29.13 | $ 16,044,545 | 30.28 |
| USD : RMB | 4,970,860 | 6.6227 | 4,118,073 | 6.2933 |
| YEN : RMB | 71,515,719 | 0.0813 | 4,895,840 | 0.0812 |
| YEN : NTD | 14,773,692 | 0.3582 | 8,144,025 | 0.3906 |
| Net effect in consolidated | | | | |
| Entities with foreign currency | | | | |
| USD : NTD | 12,851,398 | 29.13 | 16,132,709 | 30.28 |
| EUR : NTD | 218,331 | 38.92 | 215,299 | 39.18 |
| HKD : NTD | 41,022 | 3.7480 | 46,374 | 3.8970 |
| Financial Liabilities | | | | |
| Monetary item | | | | |
| USD : RMB | 15,078,243 | 6.6227 | 11,775,142 | 6.2933 |
| USD : NTD | 8,100,455 | 29.13 | 11,235,440 | 30.28 |
| YEN : NTD | 23,506,070 | 0.3582 | 74,763,422 | 0.3906 |
| YEN : RMB | 21,161,314 | 0.0813 | 23,475,230 | 0.0812 |

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:

i. 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 the credit risk would occur is low.

ii. Convertible bonds payable of the Company were issued on the primary market, so that the Company is not exposed to credit risk that may arise from counterparties on the secondary market.

(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 exist, there is an active market for available-for-sale financial assets, and for financial assets measured at cost, the Group performs impairment testing regularly. Moreover, the Group evaluated the counterparties' credit standing when it entered into the transaction. Although the potential for credit risk does exist, the Group does not expect material credit risk accordingly.

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 receivables overdue or with maturities over one year. Therefore, there is no material liquidity risk.

(2) Financial assets:

i. 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.

ii. As for financial assets measured at cost, the liquidity risk is high as there is no active market. However, since the shareholding percentages are relatively low, 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 high trading volumes and a large 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 on future exchanges in New York, Chicago or London. The numbers of available future targets and international market participants are adequate to facilitate easy entry and exit. Therefore, no material 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:

(a)Overseas convertible bonds payable

The Company issued overseas convertible bonds in the amount of US$1 billion on October 12, 2010. The bonds will mature on October 12, 2013. The bondholders have no put options in the bonds. The Company expects no significant liquidity risk.

D. Cash flow risk from movements in interest rates

(1) Long-term liabilities:

i. 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.

ii. As to the domestic bonds payable issued by the Company, there should be no material cash flow risk from movements in interest rates due to the zero interest rate on the bond.

iii. Although the Company's long-term loans bear short-term-floating-interest rate, current short-term interest rate is much lower than long-term interest rate and is not possible to rise significantly in the near future; thus, the Company expects no significant cash flow risk would arise.

(2) Foreign exchange transactions:

The forward foreign currency transactions entered into by the Group are for the purpose of hedging against short-term gaps of the net positions of foreign currency assets and liabilities. As such, the amounts of the transactions are immaterial and their duration is short. Moreover, because of the equivalent foreign currency cash outflows and inflows, the Group expects no significant funding demand. Therefore, no material cash flow risk is expected from movements in interest rates.

(3) Financial assets:

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

6) Elimination of intercompany transactions

| For the year ended December 31, 2010 | | |
|---|---|---|
| Transaction | Companies | Amount |
| 1) Elimination of long-term investments and stockholders' equity | Hyield Venture Capital Co., Ltd.<br>Foxconn Holding Ltd.<br>Foxconn (Far East) Ltd.-Cayman<br>Bao Shin International Investment Co., Ltd.<br>Hon Chi International Investment Co., Ltd.<br>Hon Yuan International Investment Co., Ltd.<br>Lin Yih International Investment Co., Ltd.<br>Premier Image Technology (H.K), Limited<br>Hon Hai/Foxconn Logistics California LLC.<br>Hon Hai/Foxconn Logistics Texas LLC.<br>Altus Technology Inc.<br>Foxconn Singapore (PTE) Ltd.<br>Ambit International Ltd.<br>Margini Holdings Ltd.<br>Image & Vision Investment Corp. | $ 414,587,071 |

| Transaction | Companies | Amount |
|---|---|---|
| | | For the year ended December 31, 2010 |
| 2) Elimination of intercompany receivables, payables and prepayments | | |
| A. Accounts receivable, accounts payable and other receivables/ payables | Foxconn Holding Ltd.<br>Foxconn (Far East) Ltd.-Cayman<br>Bao Shin International Investment Co., Ltd.<br>Hyield Venture Capital Co., Ltd.<br>Hon Hai/Foxconn Logistics California LLC.<br>Hon Hai/Foxconn Logistics Texas LLC.<br>Foxconn Singapore (PTE) Ltd.<br>Ambit International Ltd.<br>Margini Holdings Ltd.<br>Premier Image Technology (H.K), Limited | $ 206,915,021 |
| B. Prepayments | Foxconn (Far East) Ltd.-Cayman<br>Foxconn Holding Ltd. | 4,179,623 |
| 3) Elimination of profit and loss | | |
| A. Sales and purchases | Foxconn (Far East) Ltd.-Cayman<br>Foxconn Holding Ltd.<br>Foxconn Singapore (PTE) Ltd.<br>Hyield Venture Capital Co., Ltd.<br>Bao Shin International Investment Co., Ltd.<br>Ambit International Ltd.<br>Hon Chi International Co., Ltd.<br>Altus Technology Inc.<br>Premier Image Technology (H.K), Limited<br>Margini Holdings Ltd. | 1,414,369,089 |
| B. Logistics expenses | Foxconn (Far East) Ltd.-Cayman<br>Hon Hai/Foxconn Logistics California LLC.<br>Hon Hai/Foxconn Logistics Texas LLC. | 1,532,226 |
| C. Processing revenue and expenses | Foxconn (Far East) Ltd.-Cayman | 98,559,738 |
| D. Unrealized intercompany gross profit | Foxconn (Far East) Ltd.-Cayman<br>Foxconn Holding Ltd.<br>Ambit International Ltd.<br>Premier Image Technology (H.K), Limited<br>Margini Holdings Ltd. | 2,011,024 |

| For the year ended December 31, 2011 | | |
|---|---|---|
| Transactions | Companies | Amount |
| 1) Elimination of long-term investments and stockholders' equity | Hyield Venture Capital Co., Ltd.<br>Foxconn Holding Ltd.<br>Foxconn (Far East) Ltd.-Cayman<br>Bao Shin International Investment Co., Ltd.<br>Hon Chi International Investment Co., Ltd.<br>Hon Yuan International Investment Co., Ltd.<br>Lin Yih International Investment Co., Ltd.<br>Premier Image Technology (H.K), Limited<br>Hon Hai/Foxconn Logistics California LLC.<br>Hon Hai/Foxconn Logistics Texas LLC.<br>Altus Technology Inc.<br>Foxconn Singapore (PTE) Ltd.<br>Ambit International Ltd.<br>Margini Holdings Ltd.<br>Image & Vision Investment Corp.<br>Foxconn Holdings B.V. -Netherland<br>Syntrend Creative Park Co., Ltd<br>Foxconn SA B.V. | $ 524,911,375 |
| 2) Elimination of intercompany receivables, payables and prepayments | | |
| A. Accounts receivable, accounts payable and other receivables/ payables | Foxconn Holding Ltd.<br>Foxconn (Far East) Ltd.-Cayman<br>Bao Shin International Investment Co., Ltd.<br>Hyield Venture Capital Co., Ltd.<br>Hon Hai/Foxconn Logistics California LLC.<br>Hon Hai/Foxconn Logistics Texas LLC.<br>Foxconn Singapore (PTE) Ltd.<br>Ambit International Ltd.<br>Margini Holdings Ltd.<br>Premier Image Technology (H.K), Limited | 981,727,616 |
| B. Prepayments | Foxconn (Far East) Ltd.-Cayman<br>Foxconn Holding Ltd. | 567,821 |
| 3) Elimination of profit and loss | | |
| A. Sales and purchases | Foxconn (Far East) Ltd.-Cayman<br>Foxconn Holding Ltd.<br>Foxconn Singapore (PTE) Ltd.<br>Hyield Venture Capital Co., Ltd. | $ 1,908,437,423 |

| | For the year ended December 31, 2010 | |
|---|---|---|
| Transaction | Companies | Amount |
| | Bao Shin International Investment Co., Ltd.<br>Ambit International Ltd.<br>Hon Chi International Investment Co., Ltd.<br>Altus Technology Inc.<br>Premier Image Technology (H.K), Limited<br>Margini Holdings Ltd. | |
| B. Logistics expenses | Foxconn (Far East) Ltd.-Cayman<br>Hon Hai/Foxconn Logistics California LLC.<br>Hon Hai/Foxconn Logistics Texas LLC. | $ 1,348,758 |
| C. Processing revenue and expenses | Foxconn (Far East) Ltd.-Cayman | 99,152,222 |
| D. Unrealized intercompany gross profit | Foxconn (Far East) Ltd.-Cayman<br>Foxconn Holding Ltd.<br>Ambit International Ltd.<br>Premier Image Technology (H.K), Limited<br>Margini Holdings Ltd. | 2,649,176 |

11. OPERATING SEGMENTS INFORMATION

1) The Group has adopted eCMMS (E-enabled Components, Modules, Moves & Services) strategy, and provided a one-stop shop to its customers, which are primarily in the 3C industries, with a total solution for design, development, engineering, procurement, manufacturing, logistics and after-sales service. The Group segregates operating segments from both a customer service and product perspective.

In accordance with R.O.C. SFAS No. 41, “Operating Segments”, the Group has determined the operating segments and reportable operating segments. Operating segments which have met certain quantitative threshold are disclosed individually or aggregately as reportable operating segments; other segments which have not met the quantitative threshold are included in the ‘all other segments’. The Group has identified the electronic manufacturing integrated services department, which provides global 3C production-related one-stop services, as a reportable operating segment.

The chief operating decision maker assesses performance and allocates resources of the operating segments based on each operating segment’s revenue and operating income after adjusting the internal costs and allocated expenses. Except that recognition of internal costs shall be in accordance with the Group’s related internal calculation basis, operating segment’s accounting policies are the same as disclosed in Note 2.

2) Financial information of reportable segment

The financial information on reportable segment provided to chief operating decision maker is as follows:

| | December 31, | |
|---|---|---|
| | 2010 | 2011 |
| Net external revenue | $ 2,842,232,653 | $ 3,147,460,520 |
| Revenue from internal customers | 246,659,626 | 279,268,751 |
| Segment revenue | $ 3,088,892,279 | $ 3,426,729,271 |
| Segment income | $ 81,998,454 | $ 96,229,483 |
| Segment assets (Note) | $ - | $ - |

Note: The chief operating decision maker does not use the measured amount of the assets as a measurement indicator; therefore, the measured amount of the Group’s assets shall be disclosed as $0.

3) Reconciliation information of segment income, assets, and liabilities

The reconciliations of a pre-tax income between reportable segments and continuing operation were as follows:

| Operating revenue | 2010 | 2011 |
| --- | --- | --- |
| Total reported segment revenue | $ 3,088,892,279 | $ 3,426,729,271 |
| Other operating segment revenue | 42,285,162 | 62,760,660 |
| Elimination of intersegment revenue | ( 133,972,125) | ( 36,808,658) |
| Total corporate revenue | $ 2,997,205,316 | $ 3,452,681,273 |

| Profit and loss | 2010 | 2011 |
| --- | --- | --- |
| Income of reported segment | $ 81,998,454 | $ 96,229,483 |
| Income of other operating segments | 8,278,747 | ( 1,700,469) |
| Elimination of intersegment transactions and internal costs and allocated expenses adjustments | 1,200,007 | 8,007,186 |
| Income before income tax | $ 91,477,208 | $ 102,536,200 |

4) Revenue information by category

Revenues from external customers are mainly derived from assembling of 3C products. The breakdown of retail and wholesale results are shown in Note 12.

5) Revenue information by geographic area

| | 2010 | | 2011 | |
| --- | --- | --- | --- | --- |
| | Revenue | Non-current assets | Revenue | Non-current assets |
| United States of America | $ 773,638,257 | $ 2,428,535 | $ 987,885,444 | $ 2,408,224 |
| Ireland | 437,138,548 | 285 | 763,130,682 | 52 |
| China | 337,278,449 | 188,400,695 | 439,784,193 | 283,402,318 |
| Singapore | 367,458,266 | 418,870 | 388,658,671 | 271,999 |
| Japan | 356,214,208 | 25,211 | 247,835,759 | 27,689 |
| Taiwan | 155,290,290 | 30,859,212 | 108,466,630 | 36,351,485 |
| Others | 570,187,298 | 82,794,879 | 516,919,894 | 75,059,340 |
| | $2,997,205,316 | $ 304,927,687 | $3,452,681,273 | $ 397,521,107 |

6) Information on major customers

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

| | December 31, | |
| --- | --- | --- |
| Customers | 2010 | 2011 |
| Customer E | $ 794,294 | $ 1,350,423 |
| Customer C | 408,787 | 459,723 |
| Customer A | 465,584 | 340,740 |

13. <u>DISCLOSURES RELATING TO THE ADOPTION OF IFRSs</u>

Pursuant to the regulations of the Financial Supervisory Commission, Executive Yuan, R.O.C., effective January 1, 2013, a public company whose stock is listed on the Taiwan Stock Exchange Corporation or traded in the GreTai Securities Market should prepare financial statements in accordance with the International Financial Reporting Standards ("IFRSs"), International Accounting Standards ("IASs"), and relevant interpretations and interpretative bulletins that are ratified by the Financial Supervisory Commission.

The Company discloses the following information in advance prior to the adoption of IFRSs under the requirements of Jin-Guan-Zheng-Shen-Zi Order No. 0990004943 of the Financial Supervisory Commission, dated February 2, 2010:

Major contents and status of execution of the Company's plan for IFRSs adoption:

A. The Company has formed an IFRSs group, headed by the Company's general manager, which is responsible for setting up a plan relative to the Company's transition to IFRSs. The major contents and status of execution of this plan are outlined below:

| Working Items for IFRSs Adoption | Status of Execution |
|---|---|
| a. Formation of an IFRSs group | Completed |
| b. Setting up a plan relative to the Company's transition to IFRSs | Completed |
| c. Identification of the differences between current accounting policies and IFRSs | Completed |
| d. Identification of consolidated entities under the IFRSs framework | Completed |
| e. Evaluation of the impact of each exemption and option on the Company under IFRS 1 – First-time Adoption of International Financial Reporting Standards | Completed |
| f. Evaluation of needed information system adjustments | Completed |
| g. Evaluation of needed internal control adjustments | Completed |
| h. Establish IFRSs accounting policies | Completed |
| i. Selection of exemptions and options available under IFRS 1 - First-time Adoption of International Financial Reporting Standards | Completed |
| j. Preparation of statement of financial position on the date of transition to IFRSs | In process |

| Working Items for IFRSs Adoption | Status of Execution |
|---|---|
| k. Preparation of IFRSs comparative financial information for 2012 | In process |
| l. Completion of relevant internal control (including financial reporting process and relevant information system) adjustments | In process |

B. Material differences that may arise between current accounting policies used in the preparation of financial statements and IFRSs and "Rules Governing the Preparation of Financial Statements by Securities Issuers" that will be used in the preparation of financial statements in the future:

The Company uses the IFRSs already ratified currently by the Financial Supervisory Commission and the "Rules Governing the Preparation of Financial Statements by Securities Issuers" that will be applied in 2013 as the basis for evaluation of material differences in accounting policies as mentioned above. However, the Company's current evaluation results may be different from the actual differences that may arise when new issuances of or amendments to IFRSs are subsequently ratified by the Financial Supervisory Commission or relevant interpretations or amendments to the "Rules Governing the Preparation of Financial Statements by Securities Issuers" come in the future.

Material differences identified by the Company that may arise between current accounting policies used in the preparation of financial statements and IFRSs and "Rules Governing the Preparation of Financial Statements by Securities Issuers" that will be used in the preparation of financial statements in the future are set forth below:

1. Financial assets: equity instruments

   In accordance with the amended "Rules Governing the Preparation of Financial Statements by Securities Issuers", dated July 7, 2011, unlisted stocks and emerging stocks held by the Company should be measured at cost and recognized in "Financial assets carried at cost". However, in accordance with IAS 39, "Financial Instruments: Recognition and Measurement", investments in equity instruments without an active market but with reliable fair value measurement (i.e. the variability of the estimation interval of reasonable fair values of such equity instruments is insignificant, or the probability for these estimates can be made reliably) should be measured at fair value.

2. Financial instruments: Presentation

   In accordance with current accounting standards in R.O.C., the conversion price of convertible bonds overseas should be converted to an agreed conversion price in New Taiwan dollars with a fixed exchange rate applicable on conversion of bonds. The conversion rights which are converted to a fixed amount of common shares should be classified as equity instruments. However, in accordance with IAS 32, "Financial Instruments: Presentation", the conversion rights which do not meet the criteria of equity instruments should be classified as financial liabilities.

3. Business combinations

(i) The measurement date for the equity stock issued in a business combination is the announcement date of the combination agreement in accordance with current accounting standards in R.O.C. and is the acquisition date in accordance with IFRS 3, "Business Combinations".

(ii) In accordance with current accounting standards in R.O.C., when the fair value of identifiable net assets acquired exceeds the acquisition cost, the difference should be assigned to non-current assets acquired proportionate to their respective fair values. If the book values of those non-current assets are reduced to zero, the remaining excess should be recorded as extraordinary gains. However, in accordance with IFRS 3, "Business Combinations", the difference should be directly recognized in profit or loss.

(iii) In accordance with current accounting standards in R.O.C., the minority interest on the consolidated financial statements should be measured based on the book value of the acquired corporation. In accordance with IFRS 3, "Business Combinations", the non-controlling interest in the acquired corporation should be measured at fair value (or at the non-controlling interest's proportionate share of the acquired corporation's identifiable net assets).

(iv) In accordance with current accounting standards in R.O.C., if the business combination occurred before December 31, 2007, the acquiring corporation should use pooling of interest method. However, in accordance with IFRS 3, "Business Combinations", the acquiring corporation should adopt purchase method.

4. Consolidated financial statements

In accordance with current accounting standards in R.O.C., in case the parent company changes its share ownership of the subsidiary and loses control over the subsidiary, any investment retained in the former subsidiary is measured at the book value multiplied by the residual share ownership ratio at the date when control is lost. In accordance with IAS 27, "Consolidated and Separate Financial Statements", any investment retained in the former subsidiary should be recognized at its fair value at the date when control is lost.

5. Investments in long-term equity investments accounted for under equity method

In accordance with current accounting standards in R.O.C., if an investor company holds less than 20% of the investee company's voting shares without losing significant influence over an investee company, the investments should be accounted for under equity method. In accordance with IAS 28, "Investments in Associates", when an investment ceases to be an associate, the investment should be reclassified as "Available-for-sale financial assets" and measured at its fair value at the date when it ceases to be an associate.

6. Investment property

   In accordance with current accounting standards in R.O.C., the Company's property that is leased to others is presented in 'Other assets' account. In accordance with IAS 40, "Investment Property", property that meets the definition of investment property is classified and accounted for as 'Investment property'.

7. Pensions

   (i) The discount rate used to calculate pensions shall be determined with reference to the factors specified in R.O.C. SFAS 18, paragraph 23. However, IAS 19, "Employee Benefits", requires an entity to determine the rate used to discount employee benefits with reference to market yields on high quality corporate bonds that match the currency at the end day of the reporting period and duration of its pension plan; when there is no deep market in corporate bonds, an entity is required to use market yields on government bonds (at the end day of the reporting period) instead.

   (ii) In accordance with current accounting standards in R.O.C., the unrecognized transitional net benefit obligation should be amortized on a straight-line basis over the average remaining service period of employees still in service and expected to receive benefits. However, as this is the Company's first-time adoption of IFRSs, the transition provisions of IAS 19, "Employee Benefits", do not apply to the Company. Accordingly, there is no unrecognized transitional net benefit obligation.

   (iii) In accordance with current accounting standards in R.O.C., actuarial pension gain or loss of the Company is recognized in net pension cost of current period using the 'corridor' method. However, IAS 19, "Employee Benefits", requires that actuarial pension gain or loss should be recognized immediately in other comprehensive income.

8. Employee benefits

   The current accounting standards in R.O.C. do not specify the rules on the cost recognition for accumulated unused compensated absences. The Company recognizes such costs as expenses upon actual payment. However, IAS 19, "Employee Benefits", requires that the costs of accumulated unused compensated absences should be accrued as expenses at the end of the reporting period.

9. Share-based payment

   The employee stock options granted before December 31, 2007 and compensation cost of treasury stock transferred to employees and cash capital increase reserved for employee preemption incurred before December 31, 2007 was not recognized as an expense by the Company. However, according to IFRS 2, "Share-based Payment", the cost of the share-based payment arrangements stated above should be expensed at the fair value of the equity instruments over the vesting period.

10. Income taxes

    In accordance with current accounting standards in R.O.C., a deferred tax asset or liability should, according to the classification of its related asset or liability, be classified as current or noncurrent. However, a deferred tax asset or liability that is not related to an asset or liability for financial reporting should be classified as current or noncurrent according to the expected period to realize or settle a deferred tax asset or liability. However, under IAS 1, “Presentation of Financial Statements”, an entity should not classify a deferred tax asset or liability as current.

Some of the above differences may not have a material effect on the Company in transition to IFRSs due to the exemption rules in IFRS 1, “First-time Adoption of International Financial Reporting Standards”, adopted by the Company.