FIH Mobile Limited
富智康集團有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 2038)

ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2014

The board of directors (the "Board") of FIH Mobile Limited (the "Company" or "we") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2014 together with comparative figures for the previous corresponding period as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2014

		Six months ended	
		30.6.2014	30.6.2013
	NOTES	***US$'000***	*US$'000*
		(unaudited)	(unaudited)
Turnover	*4*	**2,283,452**	2,476,295
Cost of sales		**(2,142,365)**	(2,375,858)
Gross profit		**141,087**	100,437
Other income, gains and losses		**126,326**	117,606
Selling expenses		**(8,249)**	(9,443)
General and administrative expenses		**(78,342)**	(89,597)
Research and development expenses		**(68,705)**	(76,247)
Impairment loss recognised for property, plant and equipment	*9*	**(17,898)**	–
Interest expense on bank borrowings		**(4,107)**	(2,807)
Share of loss of associates		**(932)**	(65)
Share of (loss) profit of joint ventures		**(453)**	485
Profit before tax		**88,727**	40,369
Income tax expense	*5*	**(38,888)**	(23,134)
Profit for the period	*6*	**49,839**	17,235

	NOTES	Six months ended **30.6.2014** *US$'000* **(unaudited)**	30.6.2013 *US$'000* (unaudited)
Other comprehensive (expense) income:			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**(15,768)**	10,936
Fair value loss on available-for-sale financial assets		**(101)**	–
Share of translation reserve of associates		**1,019**	(365)
Share of translation reserve of joint ventures		**(22)**	(92)
Other comprehensive (expense) income for the period		**(14,872)**	10,479
Total comprehensive income for the period		**34,967**	27,714
Profit (loss) for the period attributable to:			
Owners of the Company		**49,853**	17,659
Non-controlling interests		**(14)**	(424)
		49,839	17,235
Total comprehensive income (expense) attributable to:			
Owners of the Company		**34,981**	28,478
Non-controlling interests		**(14)**	(764)
		34,967	27,714
Earnings per share	*8*		
Basic		**US0.66 cents**	US0.24 cents
Diluted		**US0.65 cents**	US0.24 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2014

	NOTES	**30.6.2014 *US$'000* (unaudited)**	31.12.2013 *US$'000* (audited)
Non-current assets			
Property, plant and equipment	*9*	**928,012**	987,286
Investment properties		**2,886**	2,795
Prepaid lease payments		**47,663**	48,492
Available-for-sale investments	*10*	**34,133**	1,188
Interests in associates		**25,336**	25,249
Interests in joint ventures		**5,883**	6,358
Deferred tax assets	*11*	**55,936**	61,790
Deposit for acquisition of prepaid lease payments		**30,989**	31,275
		1,130,838	1,164,433
Current assets			
Inventories		**432,537**	225,919
Trade and other receivables	*12*	**1,389,552**	1,678,245
Short-term investments	*13*	**549,722**	–
Bank deposits		**229,320**	393,089
Bank balances and cash		**1,821,499**	2,124,079
		4,422,630	4,421,332
Current liabilities			
Trade and other payables	*14*	**1,508,654**	1,585,167
Bank borrowings	*15*	**101,633**	137,780
Provision	*16*	**33,805**	31,503
Tax payable		**104,426**	90,140
		1,748,518	1,844,590
Net current assets		**2,674,112**	2,576,742
Total assets less current liabilities		**3,804,950**	3,741,175
Capital and reserves			
Share capital		**309,318**	302,963
Reserves		**3,454,356**	3,395,702
Equity attributable to owners of the Company		**3,763,674**	3,698,665
Non-controlling interests		**9,810**	9,824
Total equity		**3,773,484**	3,708,489
Non-current liabilities			
Deferred tax liabilities	*11*	**6**	15
Deferred income	*17*	**31,460**	32,671
		31,466	32,686
		3,804,950	3,741,175

Notes:

1. INDEPENDENT REVIEW

The interim results for the six months ended 30 June 2014 are unaudited, but have been reviewed in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. The unmodified review report is included in the interim report to be sent to the Company's shareholders.

2. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 ("IAS 34") "Interim Financial Reporting" issued by the International Accounting Standards Board ("IASB") as well as the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

3. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2014 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2013. In addition, the Group has applied the following accounting policy for financial assets at fair value through profit or loss ("FVTPL") and available-for-sale ("AFS") financial assets during the current interim period:

Financial assets at FVTPL

A financial asset other than a financial asset held for trading, including short-term investments may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 "Financial instruments: Recognition and measurement" permits the entire combined contract (asset or liability) to be designated as at FVTPL.

AFS financial assets

Equity securities held by the Group that are classified as AFS financial assets and are traded in an active market are measured at fair value at the end of each reporting period. Changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated under the heading of revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the revaluation reserve is reclassified to profit or loss.

Application of a new Interpretation and amendments to International Financial Reporting Standards ("IFRSs")

In the current interim period, the Group has applied, for the first time, the following new Interpretation and amendments to IFRSs issued by the IASB and IFRS Interpretation Committee (the "IFRIC") of the IASB that are relevant for the preparation of the Group's condensed consolidated financial statements:

Amendments to IFRS 10, IFRS 12 and IAS 27	Investment entities
Amendments to IAS 32	Offsetting financial assets and financial liabilities
Amendments to IAS 36	Recoverable amount disclosures for non-financial assets
Amendments to IAS 39	Novation of derivatives and continuation of hedge accounting
IFRIC 21	Levies

Amendments to IAS 32 "Offsetting financial assets and financial liabilities"

The Group has applied the amendments to IAS 32 "Offsetting financial assets and financial liabilities" for the first time in the current interim period. The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of set-off" and "simultaneous realisation and settlement".

The amendments to IAS 32 have been applied retrospectively.

The application of other new Interpretation and amendments to IFRSs in the current interim period has had no material effect on the amounts reported and/or disclosures set out in these condensed consolidated financial statements.

4. SEGMENT INFORMATION

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

The Group's operations are organised into three operating segments based on the location of customers – Asia, Europe and America.

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

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

	Six months ended	
	30.6.2014	30.6.2013
	US$'000	*US$'000*
	(unaudited)	(unaudited)
Segment revenue (external sales)		
Asia	**1,382,696**	1,444,536
Europe	**542,063**	559,767
America	**358,693**	471,992
Total	**2,283,452**	2,476,295
Segment profit		
Asia	**144,464**	95,203
Europe	**8,263**	8,386
America	**32,225**	41,499
	184,952	145,088
Other income, gains and losses	**74,212**	63,512
General and administrative expenses	**(78,342)**	(89,597)
Research and development expenses	**(68,705)**	(76,247)
Impairment loss recognised for property, plant and equipment	**(17,898)**	–
Interest expense on bank borrowings	**(4,107)**	(2,807)
Share of loss of associates	**(932)**	(65)
Share of (loss) profit of joint ventures	**(453)**	485
Profit before tax	**88,727**	40,369

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

5. INCOME TAX EXPENSE

The charge comprises:

	Six months ended	
	30.6.2014	30.6.2013
	US$'000	*US$'000*
	(unaudited)	(unaudited)
Current tax:		
Hong Kong	**–**	–
Other jurisdictions	**28,951**	14,592
	28,951	14,592
Underprovision in prior periods:		
Hong Kong	**–**	1,253
Other jurisdictions	**4,464**	1,753
	4,464	3,006
Deferred tax *(note 11)*		
Current period	**5,473**	5,536
	38,888	23,134

Hong Kong Profits Tax was calculated at 16.5% of the estimated assessable profit.

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

Tax charge mainly consists of income tax in the People's Republic of China (the "PRC") attributable to the assessable profits of the Company's subsidiaries established in the PRC. The applicable tax rate for current period was 25% (2013: 25%). Two of the Company's subsidiaries were awarded with the Advanced – Technology Enterprise Certificate and entitled for a tax reduction from 25% to 15% during 2013 to 2016, respectively. Except these two subsidiaries, other PRC subsidiaries are subject to Enterprise Income Tax at 25% (2013: 25%).

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

6. PROFIT FOR THE PERIOD

	Six months ended	
	30.6.2014	30.6.2013
	US$'000	*US$'000*
	(unaudited)	(unaudited)
Profit for the period has been arrived at after charging (crediting):		
Amortisation of investment properties	**87**	–
Amortisation of prepaid lease payments (included in general and administrative expenses)	**550**	1,068
Depreciation of property, plant and equipment	**70,439**	77,237
Total depreciation and amortisation	**71,076**	78,305
Cost of inventories recognised as expense	**2,127,705**	2,360,474
Gain from changes in fair value of financial assets classified as held for trading	**(506)**	–
Impairment loss recognised in respect of trade receivables	**260**	80
Interest income from bank deposits	**(30,168)**	(24,886)
Investment income from financial assets designated as at FVTPL	**(3,310)**	–
Loss on disposal and write-off of property, plant and equipment	**1,340**	12,572
Provision for warranty	**4,381**	3,020
Write down of inventories to net realisable value	**10,279**	12,364

7. DIVIDEND

No dividend was paid, declared or proposed for the six months ended 30 June 2014 (for the six months ended 30 June 2013: nil). The directors do not recommend the payment of an interim dividend.

8. EARNINGS PER SHARE

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

	Six months ended	
	30.6.2014	30.6.2013
	US$'000	*US$'000*
	(unaudited)	(unaudited)
Earnings attributable to the owners of the Company		
Earnings for the purposes of basic and diluted earnings per share	**49,853**	17,659

	Six months ended	
	30.6.2014	30.6.2013
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**7,551,552,451**	7,432,499,687
Effect of dilutive potential ordinary shares relating to outstanding share options and share awards issued by the Company	**92,004,453**	15,263,482
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**7,643,556,904**	7,447,763,169

9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the current period, the Group acquired property, plant and equipment of approximately US$52,411,000 (2013: US$29,896,000).

In addition, the Group disposed of certain property, plant and equipment with an aggregate carrying amount of US$16,970,000 (2013: disposed of and wrote off US$26,048,000) for proceeds of US$15,630,000 (2013: US$13,476,000), resulting in a loss on disposal of US$1,340,000 (2013: loss on disposal and write-off of US$12,572,000).

The Group reviews property, plant and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. As at 30 June 2014, the management assessed the recoverable amounts of certain buildings and plant and machinery as a result of the deteriorating market demand and changing economic environment. Impairment of such buildings and plant and machinery is measured by comparing its carrying amount to its recoverable amount which is determined based on its value in use and estimated by reference to the projected discounted cash flows that are expected to generate from it. As a result of the assessment, an impairment loss of US$17,898,000 has been recognised during the period ended 30 June 2014. As at 30 June 2013, the management considered there was no indicator that the carrying amount of property, plant and equipment might not be recoverable.

10. AVAILABLE-FOR-SALE INVESTMENTS

	30.6.2014	31.12.2013
	US$'000	*US$'000*
	(unaudited)	(audited)
Unlisted equity investments *(note a)*	**25,734**	1,188
Investment in private fund *(note b)*	**8,399**	–
Total of AFS investments analysed for reporting purposes as non-current assets	**34,133**	1,188

Notes:

(a) At 30 June 2014, included in the unlisted equity investments, they are (a) investments in unlisted equity securities issued by certain private entities incorporated or operated in the PRC, the United States and the Cayman Islands (31.12.2013: Finland and the United States) and (b) a deposit of US$7,495,000 (31.12.2013: nil) made for a private placement in a listed company in Australia. They are measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that its fair value cannot be measured reliably.

(b) The amount represents the investment in a private fund domiciled in the Cayman Islands. The investment is measured at fair value derived from observable market values of underlying assets at the end of the reporting period.

11. DEFERRED TAXATION

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

	Allowances for inventories, trade and other receivables US$'000	Warranty provision US$'000	Accelerated tax depreciation US$'000	Tax losses US$'000	Deferred income US$'000	Others US$'000 (Note)	Total US$'000
At 1 January 2013	(5,377)	(1,300)	2,484	(5,962)	(8,533)	(13,349)	(32,037)
Charge (credit) to profit or loss for the period	678	(172)	49	6,011	539	(1,569)	5,536
Exchange adjustments	(183)	(24)	(237)	(49)	(140)	(354)	(987)
At 30 June 2013	(4,882)	(1,496)	2,296	–	(8,134)	(15,272)	(27,488)
At 1 January 2014	**(14,700)**	**(2,813)**	**2,143**	**(11,315)**	**(8,198)**	**(26,892)**	**(61,775)**
Charge (credit) to profit or loss for the period	**4,621**	**(100)**	**(1,822)**	**426**	**1,446**	**902**	**5,473**
Exchange adjustments	**104**	**24**	**(6)**	**(26)**	**73**	**203**	**372**
At 30 June 2014	**(9,975)**	**(2,889)**	**315**	**(10,915)**	**(6,679)**	**(25,787)**	**(55,930)**

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

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

	30.6.2014 ***US$'000*** **(unaudited)**	31.12.2013 *US$'000* (audited)
Deferred tax assets	**(55,936)**	(61,790)
Deferred tax liabilities	**6**	15
	(55,930)	(61,775)

At 30 June 2014, the Group has unused tax losses of US$941,677,000 (31.12.2013: US$963,423,000) available for offset against future profits. A deferred tax asset had been recognised in respect of approximately US$36,383,000 (31.12.2013: US$37,715,000) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses of US$905,294,000 (31.12.2013: US$925,708,000) either due to the unpredictability of future profit streams or because it is not probable that the unused tax losses will be available for utilisation before their expiry. The unrecognised tax losses will expire before 2019.

Under the Law of the PRC on Enterprise Income Tax, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. No liability has been recognised in respect of temporary differences associated with undistributed earnings of subsidiaries from 1 January 2008 onwards of approximately US$871,804,000 (31.12.2013: US$803,983,000) as at the end of the reporting period because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

12. TRADE AND OTHER RECEIVABLES

	30.6.2014	31.12.2013
	US$'000	*US$'000*
	(unaudited)	(audited)
Trade receivables	**1,226,616**	1,537,689
Other receivables, deposits and prepayments	**162,936**	140,556
	1,389,552	1,678,245

The Group normally allows an average credit period of 30 to 90 days to its trade customers, except certain customers with a good track record which may be granted a longer credit period.

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

	30.6.2014	31.12.2013
	US$'000	*US$'000*
	(unaudited)	(audited)
0–90 days	**1,124,290**	1,434,496
91–180 days	**67,402**	98,491
181–360 days	**30,374**	342
Over 360 days	**4,550**	4,360
	1,226,616	1,537,689

13. SHORT-TERM INVESTMENTS

	30.6.2014	31.12.2013
	US$'000	*US$'000*
	(unaudited)	(audited)
Listed securities held-for-trading	**6,431**	–
Investments in interest bearing instruments designated as financial assets at FVTPL	**543,291**	–
	549,722	–

14. TRADE AND OTHER PAYABLES

	30.6.2014	31.12.2013
	US$'000	*US$'000*
	(unaudited)	(audited)
Trade payables	**1,133,574**	1,197,758
Accruals and other payables	**375,080**	387,409
	1,508,654	1,585,167

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

	30.6.2014	31.12.2013
	US$'000	*US$'000*
	(unaudited)	(audited)
0–90 days	**1,059,160**	1,169,148
91–180 days	**71,064**	23,534
181–360 days	**1,308**	1,027
Over 360 days	**2,042**	4,049
	1,133,574	1,197,758

15. BANK BORROWINGS

	30.6.2014	31.12.2013
	US$'000	*US$'000*
	(unaudited)	(audited)
Bank loans	**101,633**	137,780
Analysis of bank borrowings by currency:		
US$	**101,633**	137,780

The bank borrowings as at the end of the reporting period are unsecured, repayable within one year and carry interest at fixed interest rates ranging from 0.90% to 2.23% (31.12.2013: 1.36% to 3.35%) per annum.

16. PROVISION

	Warranty provision
	US$'000
At 1 January 2013	30,211
Exchange adjustments	(66)
Provision for the year	8,858
Utilisation of provision	(7,500)
At 31 December 2013	31,503
Exchange adjustments	(125)
Provision for the period	4,381
Utilisation of provision	(1,954)
At 30 June 2014	33,805

The warranty provision represents management's best estimate of the Group's liability under twelve to twenty-four months' warranty granted on handset products, based on prior experience and industry averages for defective products.

17. DEFERRED INCOME

	30.6.2014	31.12.2013
	US$'000	*US$'000*
	(unaudited)	(audited)
Government subsidies	**31,460**	32,671

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

MANAGEMENT DISCUSSION AND ANALYSIS

Review of Results and Operations

For the six-month period ended 30 June 2014, the Group recognised a consolidated turnover of US$2,283 million, representing a decrease of 7.8% from US$2,476 million for the same period last year. Gross profit for the period reached US$141 million, representing an increase of US$41 million from that for the same period last year. Profit attributable to owners of the Company for the period was US$50 million, representing an increase of US$32 million from that for the same period last year. Basic earnings per share for the period was US0.66 cents.

The profit increment was mainly driven by gross margin expansion. In the past two years, the Group has succeeded to diversify its customer base. Under the competitive environment, the Group has been pursuing customer orders with higher returns, focusing on further enhancement of production efficiency and yield and continuing to stringently control overheads and raw material cost and optimise asset utilisation and rationalise production capacities. Further roll-out of automation manufacturing processes has also enhanced productivity thereby mitigating potential impact of rising labour cost. The efforts so far made have been rewarding and have led to better and healthier customer mix and better gross margin, despite slight decline of revenue. The adoption of pure processing business model for some of the Group's system assembly orders has somehow contributed to lower revenue line but less inventory risk.

While achieving greater profitability, the Group has maintained a more stringent control of its operating expense. We believe stronger R&D (research and development) capability could differentiate the Group from its competitors in the long run, and continue to support innovation and new technology developments, resulting in stronger ODM (original design manufacturing) capability, which has been highly appreciated by its customers. We have succeeded to optimise R&D investment with good control that R&D expenses have been reduced when compared with those incurred during the same period last year. The general and administrative expenses have been reduced too as a result of successful implementation of the initiatives to streamline the Group's operating structure with leaner and flexible organisation, which has in turn enabled the Group to handle more high-mix orders with smaller volumes at competitive pricing.

China remained one of the highest handset growth markets around the world during the period, signifying that local PRC brands outperformed global brands, and thanks to trendy design, localised user interface and competitive pricing. The Group foresaw the trend a few years ago and successfully developed closer relationships with certain PRC brands, and thanks to the Group's solid R&D capability, advanced technology and large capacity.

The revenue of Asia segment was US$1,383 million, representing a slight decline of 4.3% from that for the same period last year as there were changes in the customer sales mix and some of the system assembly orders related to pure processing. As customer diversification and penetration, cost control and manufacturing site consolidation continued to give rise to positive impacts, Asia segment generated the highest profit increment (principally driven by the Group's PRC business) during the period with a year-on-year growth of 51.7%.

The contribution of America segment declined a bit as there was slower demand from some of the Group's customers and the market became more competitive. The contribution of Europe segment was small following the downsizing of less profitable manufacturing sites in Europe in the past few years. The earnings were small mainly due to a comparatively weak economic environment there and a relatively aggressive pricing strategy.

The Group recognised an asset impairment loss of US$18 million during the period mainly due to the downsizing of its India manufacturing operations.

The earnings result has evidenced the Group's vision and execution competency, which is encouraging and supportive. We believe the Group has been going towards the right track and will put in more efforts to accelerate the ongoing growth momentum.

Liquidity and Financial Resources

As at 30 June 2014, the Group had a cash balance of US$1,821 million (2013: US$2,124 million). The cash balance is expected to be able to finance its operations. The Group's gearing ratio, expressed as a percentage of interest bearing external borrowings of US$102 million (2013: US$138 million) over total assets of US$5,553 million (2013: US$5,586 million), was 1.84% (2013: 2.47%). All of the external borrowings were denominated in US Dollars. The Group borrowed according to real demand and there were no bank committed borrowing facilities and no seasonality of borrowing requirements. The outstanding interest bearing external borrowings were all at fixed rate ranging from 0.90% to 2.23% per annum with original maturity of three months.

As at 30 June 2014, the Group's cash and cash equivalents were mainly held in US Dollars and RMB.

Net cash from operating activities for the six months ended 30 June 2014 was US$192 million.

Net cash used in investing activities for the six months ended 30 June 2014 was US$452 million, of which, mainly, US$52 million represented the expenditures on property, plant and equipment related to the facilities in the Group's major sites in the PRC, US$163 million represented net decrease in bank deposits, US$546 million represented purchase of short-term investments, US$33 million represented purchase of available-for-sale investments and US$16 million represented proceeds from disposal of property, plant and equipment.

Net cash used in financing activities for the six months ended 30 June 2014 was US$21 million, primarily due to net decrease in bank borrowings of US$35 million and proceeds of US$14 million from the issue of shares to employees.

Exposures to Currency Risk and Related Hedges

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

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

Capital Commitment

As at 30 June 2014, the capital commitment of the Group was US$29.2 million (2013: US$15.8 million). Usually, the capital commitment will be funded by cash generated from operations.

Pledge of Assets

There was no pledge of the Group's assets as at 30 June 2014 and 31 December 2013.

Outlook

As it becomes more difficult for handset brands to differentiate themselves from their competitors on the hardware side, attractive pricing is one of the ways to arouse market awareness, and could indirectly impact the profitability of overall handset supply chain. Under this backdrop, we believe the trend of technology advancement and wider service platform (coupled with value-added/end-to-end solutions ranging from design and manufacturing to repair, logistics and distribution) is how the Group could add more values to its customers and stand out from its competitors in the long run.

The Group will continue to further diversify its customer base, broaden its vertical integration, manage its capacity to better support its customers to meet their product roll-out schedules, especially those who have aggressive volume expansion targets. More stringent overheads and operating expense control will remain the key focus of the Group. By keeping costs at a stable level, the Group could deliver healthy sequential gross margin and enjoy operating leverage once business further expands.

Emerging markets' growth contribution to the global smartphone industry has surpassed developed markets. We have foreseen the trend and initiated business developments with local emerging brands since last year. In addition to China, we target to broaden the Group's exposure in other fast growing emerging markets, including Indonesia, India, etc., through current customers or newly developed relationships. With solid ODM capability, comprehensive service platform, strong supply chain management ability and manufacturing sites across different countries, we believe the Group could develop much more closer relationships with its Internet and telecommunications operator customers (both existing and potential) who have less experience on the hardware side but plan to launch their own handset brands.

On top of the Group in its capacity as handset manufacturer, the Group has leveraged its strong capability on handset manufacturing into wearable devices and accessories. Despite current small contribution, the relevant experience acquired and technology and competency developed could enhance the Group's profile among its customers once the next killer application arises. We have also expanded the service platform to provide more value-added solutions with strong growth potentials, including repair and after-sale services.

We are aware mobile Internet now plays a critical role throughout the overall handset ecosystem thus becoming an important means to interact with end-customers and better understand their behaviours, and the Group aims to gain more exposure in this area to strengthen and enhance its competitive edge. To start with, the Company (through its indirect wholly-owned subsidiary) has agreed to invest approximately US$9.7 million for approximately 19.9% stake in migme Limited, a company incorporated in Australia whose shares are listed on the Australian Securities Exchange and which operate a multi-platform mobile and Internet business under the name of "migme", focusing on social networking and entertainment in emerging markets, including Southeast Asia and Africa. The Group will leverage on migme Limited's experience in operating "migme" in emerging markets, with the principal aim to gain exposure in mobile ecosystem in emerging markets thereby facilitating the Group and its customers to reach out to more end users in these markets through the "migme" platform. The Group will also continuously look for other good investment opportunities.

The fast changing and highly competitive handset industry will continue to pose new challenges to the Group. However, with the Group's leading scale and global presence and the innovative mind and dedication of the Group's talented management team and employees, we have confidence to accelerate the Group's ongoing growth momentum with a view to making greater returns to the Group and its shareholders as a whole.

Employees

As at 30 June 2014, the Group had a total of 75,660 (31.12.2013: 63,499) employees. Total staff costs incurred during the six months ended 30 June 2014 amounted to US$181 million (30.6.2013: US$239 million). The Group offers a comprehensive remuneration policy which is reviewed by the management on a regular basis.

The Company has adopted a share scheme and a share option scheme respectively. The share option scheme complies with the requirements of Chapter 17 of the Listing Rules.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2014.

AUDIT COMMITTEE

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

The audit committee has reviewed the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2014 and the Company's interim report for such six-month period and recommended the same to the Board for approval.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code"). Following specific enquiry made by the Company, all the directors of the Company have confirmed that they have complied with the required standards set out in the Model Code in respect of the Company's securities throughout the six months ended 30 June 2014.

CORPORATE GOVERNANCE

The Company has applied and complied with all the code provisions set out in the CG Code during the period from 1 January 2014 to 30 June 2014.

DISCLOSURE OF INFORMATION ON WEBSITES

The interim report 2014 of the Company containing all the information required by the Listing Rules will be despatched to the shareholders of the Company and made available on the websites of The Stock Exchange of Hong Kong Limited and the Company respectively in due course.

By Order of the Board
Tong Wen-hsin
Chairman

Hong Kong, 12 August 2014

As at the date of this announcement, the executive directors of the Company are Messrs. Tong Wen-hsin and Chih Yu Yang and Dr. Lee Jer Sheng, the non-executive director of the Company is Dr. Lee Kuo Yu and the independent non-executive directors of the Company are Messrs. Lau Siu Ki and Chen Fung Ming and Dr. Daniel Joseph Mehan.