FIH® 富智康™

FIH Mobile Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2038

Interim Report 2016

CONTENTS

CORPORATE INFORMATION

FIH MOBILE LIMITED

(the "Company", and together with its subsidiaries, the "Group")

EXECUTIVE DIRECTORS
TONG Wen-hsin *(Chairman)*
CHIH Yu Yang *(Chief Executive Officer)*
WANG Chien Ho

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

COMPANY SECRETARY
LAW Sai Hay

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AUDITORS
Deloitte Touche Tohmatsu

LEGAL ADVISORS
Clifford Chance, Hong Kong
Freshfields Bruckhaus Deringer, Hong Kong
Mayer Brown JSM, Hong Kong

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

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HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE
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Hong Kong

STOCK CODE
2038

Deloitte.
德勤

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

TO THE BOARD OF DIRECTORS OF FIH MOBILE LIMITED

Introduction

We have reviewed the condensed consolidated financial statements of FIH Mobile Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 4 to 32, which comprise the condensed consolidated statement of financial position as of 30 June 2016 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34"). The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review 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. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
11 August 2016

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2016

	NOTES	Six months ended **30.6.2016** ***US$'000*** **(unaudited)**	30.6.2015 *US$'000* (unaudited)
Revenue	*3*	**2,306,561**	3,828,856
Cost of sales		**(2,172,450)**	(3,602,522)
Gross profit		**134,111**	226,334
Other income, gains and losses		**72,775**	120,313
Selling expenses		**(9,548)**	(9,930)
General and administrative expenses		**(87,995)**	(91,245)
Research and development expenses		**(59,258)**	(67,423)
Interest expense on bank borrowings		**(13)**	(13,526)
Share of profit (loss) of associates		**792**	(1,795)
Share of loss of joint ventures		**(425)**	(424)
Profit before tax		**50,439**	162,304
Income tax expense	*4*	**(29,616)**	(33,740)
Profit for the period	*5*	**20,823**	128,564
Other comprehensive (expense) income:			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**(57,858)**	(19,355)
Fair value loss on available-for-sale financial assets		**(342)**	(55)
Share of translation reserve of associates		**(16)**	328
Share of translation reserve of joint ventures		**73**	85
Other comprehensive expense for the period		**(58,143)**	(18,997)
Total comprehensive (expense) income for the period		**(37,320)**	109,567

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME *(Continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2016

		Six months ended	
		30.6.2016	30.6.2015
	NOTE	***US$'000***	*US$'000*
		(unaudited)	(unaudited)
Profit (loss) for the period attributable to:			
Owners of the Company		**21,444**	129,829
Non-controlling interests		**(621)**	(1,265)
		20,823	128,564
Total comprehensive (expense) income attributable to:			
Owners of the Company		**(36,647)**	110,603
Non-controlling interests		**(673)**	(1,036)
		(37,320)	109,567
Earnings per share	*7*		
Basic		**US0.28 cent**	US1.68 cents
Diluted		**US0.27 cent**	US1.67 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2016

	NOTES	30.6.2016 US$'000 (unaudited)	31.12.2015 US$'000 (audited)
Non-current assets			
Property, plant and equipment	8	**810,325**	853,547
Investment properties		**6,624**	6,515
Prepaid lease payments		**41,018**	42,317
Available-for-sale investments	9	**264,692**	255,939
Interests in associates	10	**30,135**	29,359
Interests in joint ventures		**4,318**	3,897
Deferred tax assets	11	**43,879**	47,082
Deposit for acquisition of prepaid lease payments		**28,757**	30,700
		1,229,748	1,269,356
Current assets			
Inventories		**256,299**	332,636
Trade and other receivables	12	**1,335,807**	1,595,361
Short-term investments	13	**887,612**	385,138
Bank deposits		**125,828**	272,218
Bank balances and cash		**1,523,104**	1,950,306
		4,128,650	4,535,659
Current liabilities			
Trade and other payables	14	**1,642,082**	1,857,110
Bank borrowings	15	**22,860**	13,367
Provision	16	**18,503**	19,093
Tax payable		**117,611**	132,662
		1,801,056	2,022,232
Net current assets		**2,327,594**	2,513,427
Total assets less current liabilities		**3,557,342**	3,782,783

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

AT 30 JUNE 2016

	NOTES	**30.6.2016 *US$'000* (unaudited)**	31.12.2015 *US$'000* (audited)
Capital and reserves			
Share capital	*17*	**315,748**	315,748
Reserves		**3,205,799**	3,431,194
Equity attributable to owners of the Company		**3,521,547**	3,746,942
Non-controlling interests		**7,799**	8,472
Total equity		**3,529,346**	3,755,414
Non-current liabilities			
Deferred tax liabilities	*11*	**2,190**	150
Deferred income	*18*	**25,806**	27,219
		27,996	27,369
		3,557,342	3,782,783

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2016

	Attributable to owners of the Company											
	Share capital *US$'000*	Share premium *US$'000*	Special reserve *US$'000*	Revaluation reserve *US$'000*	Other reserve *US$'000*	Legal reserve *US$'000*	Translation reserve *US$'000*	Share compensation reserve *US$'000*	Retained profits *US$'000*	Total *US$'000*	Non-controlling interests *US$'000*	Total equity *US$'000*
Balance at 1 January 2015 (audited)	311,579	1,090,444	15,514	(749)	(951)	166,495	434,463	(14,165)	1,918,088	3,920,718	9,152	3,929,870
Other comprehensive (expense) income for the period	–	–	–	(55)	–	–	(19,171)	–	–	(19,226)	229	(18,997)
Profit (loss) for the period	–	–	–	–	–	–	–	–	129,829	129,829	(1,265)	128,564
Total comprehensive (expense) income for the period	–	–	–	(55)	–	–	(19,171)	–	129,829	110,603	(1,036)	109,567
Recognition of equity-settled share-based payments	–	–	–	–	–	–	–	6,470	–	6,470	–	6,470
Dividends recognised as distribution *(note 6)*	–	–	–	–	–	–	–	–	(192,359)	(192,359)	–	(192,359)
Transfer to legal reserve	–	–	–	–	–	357	–	–	(357)	–	–	–
Balance at 30 June 2015 (unaudited)	311,579	1,090,444	15,514	(804)	(951)	166,852	415,292	(7,695)	1,855,201	3,845,432	8,116	3,853,548
Balance at 1 January 2016 (audited)	**315,748**	**1,139,789**	**15,514**	**(1,296)**	**(1,606)**	**166,831**	**192,838**	**(35,335)**	**1,954,459**	**3,746,942**	**8,472**	**3,755,414**
Other comprehensive expense for the period	**-**	**-**	**-**	**(342)**	**-**	**-**	**(57,749)**	**-**	**-**	**(58,091)**	**(52)**	**(58,143)**
Profit (loss) for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**21,444**	**21,444**	**(621)**	**20,823**
Total comprehensive (expense) income for the period	**-**	**-**	**-**	**(342)**	**-**	**-**	**(57,749)**	**-**	**21,444**	**(36,647)**	**(673)**	**(37,320)**
Recognition of equity-settled share-based payments	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**29,851**	**-**	**29,851**	**-**	**29,851**
Dividends recognised as distribution *(note 6)*	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(218,599)**	**(218,599)**	**-**	**(218,599)**
Transfer to legal reserve	**-**	**-**	**-**	**-**	**-**	**292**	**-**	**-**	**(292)**	**-**	**-**	**-**
Balance at 30 June 2016 (unaudited)	**315,748**	**1,139,789**	**15,514**	**(1,638)**	**(1,606)**	**167,123**	**135,089**	**(5,484)**	**1,757,012**	**3,521,547**	**7,799**	**3,529,346**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2016

	Six months ended	
	30.6.2016	30.6.2015
	US$'000	*US$'000*
	(unaudited)	(unaudited)
Net cash from operating activities	**266,532**	285,450
Investing activities		
Purchase of short-term investments	**(2,762,618)**	(1,380,835)
Purchase of property, plant and equipment	**(51,026)**	(61,383)
Purchase of available-for-sale investments	**(7,225)**	(13,068)
Capital contribution to a joint venture	**(773)**	–
Acquisition of investment in an associate	**–**	(1,083)
Proceeds on disposal of prepaid lease payments	**–**	1,412
Proceeds from disposal of property, plant and equipment	**3,115**	12,979
Withdrawal of bank deposits for investing purpose	**117,071**	40,871
Proceeds on settlements of short-term investments	**2,255,543**	1,141,126
Net cash used in investing activities	**(445,913)**	(259,981)
Financing activities		
Bank borrowings repaid	**(13,474)**	(1,563,079)
Dividends paid	**(218,599)**	(192,359)
Bank borrowings raised	**22,227**	1,723,986
Net cash used in financing activities	**(209,846)**	(31,452)
Net decrease in cash and cash equivalents	**(389,227)**	(5,983)
Cash and cash equivalents at 1 January	**1,950,306**	1,844,192
Effect of foreign exchange rate changes	**(37,975)**	(6,654)
Cash and cash equivalents as at 30 June, representing bank balances and cash	**1,523,104**	1,831,555

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2016

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 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").

2. 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.

Except as described below, the accounting policies, critical accounting judgement, key sources of estimation uncertainty and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2016 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2015.

In the current interim period, the Group has applied, for the first time, the following amendments to International Financial Reporting Standards ("IFRSs") issued by the IASB that are relevant for the preparation of the Group's condensed consolidated financial statements:

Amendments to IFRS 11	Accounting for acquisitions of interests in joint operations
Amendments to IAS 1	Disclosure initiative
Amendments to IAS 16 and IAS 38	Clarification of acceptable methods of depreciation and amortisation
Amendments to IFRSs	Annual improvements to IFRSs 2012–2014 cycle
Amendments to IAS 16 and IAS 41	Agriculture: Bearer plants
Amendments to IAS 27	Equity method in separate financial statements
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment entities: Applying the consolidation exception

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

3. SEGMENT INFORMATION

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

3. SEGMENT INFORMATION *(Continued)*

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 30.6.2016 US$'000 (unaudited)	Six months ended 30.6.2015 US$'000 (unaudited)
Segment revenue (external sales)		
Asia	**2,019,693**	2,470,198
Europe	**96,392**	123,938
America	**190,476**	1,234,720
Total	**2,306,561**	3,828,856
Segment profit		
Asia	**140,283**	204,473
Europe	**493**	748
America	**6,321**	48,744
	147,097	253,965
Other income, gains and losses	**50,241**	82,752
General and administrative expenses	**(87,995)**	(91,245)
Research and development expenses	**(59,258)**	(67,423)
Interest expense on bank borrowings	**(13)**	(13,526)
Share of profit (loss) of associates	**792**	(1,795)
Share of loss of joint ventures	**(425)**	(424)
Profit before tax	**50,439**	162,304

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

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

4. INCOME TAX EXPENSE

The charge comprises:

	Six months ended	
	30.6.2016	30.6.2015
	US$'000	*US$'000*
	(unaudited)	(unaudited)
Current tax:		
— Hong Kong	**–**	–
— Other jurisdictions	**22,514**	33,958
— Withholding tax for distributed profit of investments in the PRC	**2,938**	–
	25,452	33,958
Underprovision in prior periods:		
— Hong Kong	**–**	–
— Other jurisdictions	**199**	2,138
	199	2,138
Deferred tax *(note 11)*		
Current period	**3,965**	(2,356)
	29,616	33,740

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

Tax charge mainly consists of income tax in the PRC attributable to the assessable profits of the Company's subsidiaries established in the PRC. Under the law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% (2015: 25%). Two of the Company's PRC 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% (2015: 25%).

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

5. PROFIT FOR THE PERIOD

	Six months ended	
	30.6.2016	30.6.2015
	US$'000	*US$'000*
	(unaudited)	(unaudited)
Profit for the period has been arrived at after charging (crediting):		
Amortisation of prepaid lease payments (included in general and administrative expenses)	**503**	548
Depreciation of property, plant and equipment	**68,988**	70,114
Depreciation of investment properties	**340**	112
Total depreciation and amortisation	**69,831**	70,774
Cost of inventories recognised as expense	**2,144,481**	3,574,933
Loss on disposal of property, plant and equipment	**4,385**	1,546
Loss from changes in fair value of financial assets classified as held-for-trading	**–**	1,758
Provision for warranty	**6,886**	9,210
Write down of inventories to net realisable value	**21,083**	18,379
Impairment loss recognised (reversed) in respect of trade receivables	**23**	(36)
Gain on disposal of prepaid lease payments	**–**	(228)
Gain from changes in fair value of financial assets designated as at fair value through profit or loss ("FVTPL")	**(12,327)**	(7,659)
Interest income from bank deposits	**(16,509)**	(32,298)

6. DIVIDENDS

	Six months ended	
	30.6.2016	30.6.2015
	US$'000	*US$'000*
	(unaudited)	(unaudited)
Dividends recognised as distribution during the period		
2015 final — US$0.00869 (2015: US$0.00544) per share	**68,599**	42,359
Special — US$0.019 (2015: US$0.01926) per share	**150,000**	150,000
	218,599	192,359

No dividend was declared or proposed for the six months ended 30 June 2016 (for the six months ended 30 June 2015: nil). The directors do not recommend the payment of an interim dividend.

7. 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	
	30.6.2016	30.6.2015
	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	**21,444**	129,829

7. EARNINGS PER SHARE *(Continued)*

	Six months ended	
	30.6.2016	30.6.2015
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**7,788,717,472**	7,743,466,880
Effect of dilutive potential ordinary shares relating to outstanding share awards issued by the Company	**104,985,680**	46,005,317
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**7,893,703,152**	7,789,472,197

8. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the current period, the Group acquired property, plant and equipment of approximately US$51,026,000 (2015: US$61,383,000).

In addition, the Group disposed of and wrote off (2015: disposed of) certain property, plant and equipment with an aggregate carrying amount of US$7,500,000 (2015: US$16,002,000) for proceeds of US$3,115,000 (2015: US$12,979,000), resulting in a loss on disposal and write-off (2015: disposal) of US$4,385,000 (2015: US$3,023,000).

9. AVAILABLE-FOR-SALE INVESTMENTS

	30.6.2016 ***US$'000*** **(unaudited)**	31.12.2015 *US$'000* (audited)
Unlisted equity investments *(note a)*	**257,830**	248,735
Investment in a private fund *(note b)*	**6,862**	7,204
Total of available-for-sale ("AFS") investments analysed for reporting purposes as non-current assets	**264,692**	255,939

9. AVAILABLE-FOR-SALE INVESTMENTS *(Continued)*

Notes:

(a) At 30 June 2016, included in the equity investments, they are investments in unlisted equity securities issued by certain private entities, which are incorporated or operated in the PRC, the United States, India, Switzerland, United Kingdom, Taiwan, Samoa, the British Virgin Islands and the Cayman Islands (31.12.2015: the PRC, the United States, India, Switzerland, United Kingdom, Taiwan, Samoa, the British Virgin Islands and the Cayman Islands). 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 their fair values cannot be measured reliably.

The largest investment included in the unlisted equity investments is the Group's investment in Jasper Infotech Private Limited ("JIP"), a private limited company incorporated in India, with a carrying amount of US$200,004,000. JIP is engaged in owning and operating the website namely www.snapdeal.com.

(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.

10. INTERESTS IN ASSOCIATES

	30.6.2016 ***US$'000*** **(unaudited)**	31.12.2015 *US$'000* (audited)
Cost of investments in associates, less impairment		
Listed outside Hong Kong	**20,324**	20,324
Unlisted	**18,422**	18,422
Share of post-acquisition loss and other comprehensive expense, net of dividend received	**(8,611)**	(9,387)
	30,135	29,359
Fair value of listed investments	**23,482**	40,668

11. DEFERRED TAXATION

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

	Allowances for inventories and trade and other receivables	Warranty provision	Accelerated tax depreciation	Tax losses	Deferred income	Others	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000* *(Note)*	*US$'000*
At 1 January 2015	(14,919)	(3,018)	2,391	(8,224)	(6,481)	(30,780)	(61,031)
(Credit) charge to profit or loss for the period	(1,163)	(788)	236	1,437	202	(2,280)	(2,356)
Exchange adjustments	20	2	(126)	378	(7)	263	530
At 30 June 2015	(16,062)	(3,804)	2,501	(6,409)	(6,286)	(32,797)	(62,857)
At 1 January 2016	**(7,166)**	**(3,943)**	**2,403**	**(5,503)**	**(5,822)**	**(26,901)**	**(46,932)**
(Credit) charge to profit or loss for the period	**(2,007)**	**56**	**2,357**	**3,106**	**285**	**168**	**3,965**
Exchange adjustments	**213**	**87**	**(244)**	**136**	**117**	**969**	**1,278**
At 30 June 2016	**(8,960)**	**(3,800)**	**4,516**	**(2,261)**	**(5,420)**	**(25,764)**	**(41,689)**

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 (after offset) for financial reporting purposes:

11. DEFERRED TAXATION *(Continued)*

	30.6.2016	31.12.2015
	US$'000	*US$'000*
	(unaudited)	(audited)
Deferred tax assets	**(43,879)**	(47,082)
Deferred tax liabilities	**2,190**	150
	(41,689)	(46,932)

At 30 June 2016, the Group has not recognised deductible temporary differences on allowances for inventories, trade and other receivables, warranty provision, deferred income and other accrued expenses of approximately US$118,492,000 (31.12.2015: US$154,026,000) as it is not probable that taxable profit will be available against which the deductible temporary difference can be utilised.

At 30 June 2016, the Group has unused tax losses of approximately US$819,027,000 (31.12.2015: US$816,284,000) available for offset against future profits. A deferred tax asset had been recognised in respect of approximately US$9,045,000 (31.12.2015: US$20,897,000) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses of approximately US$809,982,000 (31.12.2015: US$795,387,000) 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 2020.

Under the EIT Law, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. No deferred tax liability has been recognised in respect of temporary differences associated with undistributed earnings of subsidiaries from 1 January 2008 onwards of approximately US$1,261,471,000 (31.12.2015: US$1,191,811,000) 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

	30.6.2016	31.12.2015
	US$'000	US$'000
	(unaudited)	(audited)
Trade receivables	1,211,797	1,473,407
Less: Allowance for doubtful debts	(25)	(38)
	1,211,772	1,473,369
Other taxes recoverables	26,431	26,025
Other receivables, deposits and prepayments	97,604	95,967
Total trade and other receivables	1,335,807	1,595,361

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:

	30.6.2016	31.12.2015
	US$'000	US$'000
	(unaudited)	(audited)
0–90 days	1,177,972	1,357,778
91–180 days	30,160	107,902
181–360 days	1,787	6,633
Over 360 days	1,853	1,056
	1,211,772	1,473,369

13. SHORT-TERM INVESTMENTS

	30.6.2016	31.12.2015
	US$'000	*US$'000*
	(unaudited)	(audited)
Investments in interest bearing instruments designated as financial assets at FVTPL *(note)*	**887,612**	385,138

Note: The amounts represented investments with guaranteed interests acquired from banks in the PRC.

14. TRADE AND OTHER PAYABLES

	30.6.2016	31.12.2015
	US$'000	*US$'000*
	(unaudited)	(audited)
Trade payables	**1,056,242**	1,251,143
Accruals and other payables	**585,840**	605,967
	1,642,082	1,857,110

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

	30.6.2016	31.12.2015
	US$'000	*US$'000*
	(unaudited)	(audited)
0–90 days	**980,443**	1,180,589
91–180 days	**60,664**	60,489
181–360 days	**7,276**	6,802
Over 360 days	**7,859**	3,263
	1,056,242	1,251,143

15. BANK BORROWINGS

	30.6.2016	31.12.2015
	US$'000	*US$'000*
	(unaudited)	(audited)
Bank loans	**22,860**	13,367
Analysis of bank borrowings by currency:		
Renminbi ("RMB")	**15,080**	–
Japanese Yen ("JPY")	**7,780**	–
US$	**–**	13,367
	22,860	13,367

The bank borrowings as at the end of the reporting period are unsecured, with original maturity of two to three months (31.12.2015: six months), repayable within one year and carry interest at fixed interest rates ranging from 0.3% to 2.1% (31.12.2015: 1.1%) per annum.

16. PROVISION

	Warranty provision
	US$'000
At 1 January 2015	27,985
Exchange adjustments	(954)
Provision for the year	3,552
Utilisation of provision	(11,490)
At 31 December 2015	19,093
Exchange adjustments	(353)
Provision for the period	6,886
Utilisation of provision	(7,123)
At 30 June 2016	18,503

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. SHARE CAPITAL

	Number of shares	Amount
		US$'000
Ordinary shares of US$0.04 each, authorised:		
Balance at 1 January 2015, 31 December 2015 and 30 June 2016	20,000,000,000	800,000
Ordinary shares of US$0.04 each, issued and fully paid:		
Balance at 1 January 2015	7,789,472,197	311,579
Issue pursuant to the share scheme *(note 20(b))*	104,230,955	4,169
Balance at 31 December 2015 and 30 June 2016	7,893,703,152	315,748

18. DEFERRED INCOME

	30.6.2016	31.12.2015
	US$'000	*US$'000*
	(unaudited)	(audited)
Government subsidies	**25,806**	27,219

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

19. CAPITAL COMMITMENTS

	30.6.2016	31.12.2015
	US$'000	*US$'000*
	(unaudited)	(audited)
Commitments for the acquisition of property, plant and equipment contracted but not provided for	**18,757**	16,947

20. SHARE-BASED PAYMENT TRANSACTIONS

(a) Equity-settled share option scheme

On 12 January 2005, the Company adopted a share option scheme (the "Former Option Scheme") for the primary purpose of attracting skilled and experienced personnel and incentivising them to remain with the Group. In order to ensure the continuity of a share option scheme for the Company to reward, motivate and retain eligible persons, the Company adopted a new share option scheme (the "Existing Option Scheme") on 26 November 2013 and consequentially terminated the Former Option Scheme. For the avoidance of doubt, no further options would be granted under the Former Option Scheme after its termination, but in all other aspects, the provisions of the Former Option Scheme should remain in full force and effect. Accordingly, all options granted prior to the termination of the Former Option Scheme and not then exercised should remain valid and should continue to be subject to the provisions of the Former Option Scheme and Chapter 17 of the Listing Rules. The Existing Option Scheme will expire on 25 November 2023, unless otherwise terminated in accordance with its terms.

Currently, no options have been granted under the Existing Option Scheme. No share option is exercisable as at 30 June 2016 and 31 December 2015.

No expense in relation to the share options granted by the Company was recognised by the Group for the six months ended 30 June 2016 and 30 June 2015.

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

(b) Other share-based payment plan

Pursuant to a share scheme adopted by the Company on 12 January 2005 and amended by shareholders' resolution and the board resolution dated 4 August 2006 and 29 October 2009, respectively (the "Former Share Scheme"), the Company might grant free shares to the directors or employees of the Company or its subsidiaries or third party service providers including employees of 鴻海精密工業股份有限公司 (Hon Hai Precision Industry Co. Ltd. for identification purposes only) ("Hon Hai") and any of its subsidiaries.

In order to ensure the continuity of a share scheme for the Company to reward, motivate and retain eligible persons, the Company adopted a new share scheme (the "Existing Share Scheme", and together with the Former Share Scheme, the "Share Schemes") on 26 November 2013 and consequentially terminated the Former Share Scheme. For the avoidance of doubt, no further free shares would be granted under the Former Share Scheme after its termination, but in all other aspects, the provisions of the Former Share Scheme shall remain in full force and effect. Accordingly, all free shares granted prior to the termination of the Former Share Scheme and not then vested shall remain valid and shall continue to be subject to the provisions of the Former Share Scheme.

Pursuant to the approval of the Company's officers/delegates (as duly authorised by the board of directors of the Company) on 19 August 2015, the Company offered 114,717,017 ordinary shares to certain beneficiaries pursuant to the Existing Share Scheme, of which 6,175,743 ordinary shares were granted without lock-up periods, while the remaining shares were granted with lock-up periods within one year from the grant date. No consideration was payable on the grant of the shares. 104,230,955 ordinary shares were issued on 19 August 2015 and 10,486,062 ordinary shares were purchased by the trustee of the Existing Share Scheme from the stock market in August 2015.

The Group recognised total expense of US$29,851,000 (for the six months ended 30 June 2015: US$6,470,000) for the current period in relation to the shares granted under the Share Schemes.

21. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements are observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;

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

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

21. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS *(Continued)*

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis *(Continued)*

Financial assets/ financial liabilities	Fair value as at 30.6.2016 US$'000	Fair value as at 31.12.2015 US$'000	Fair value hierarchy	Valuation technique(s) and key inputs	Significant unobservable input(s)	Sensitivity/ relationship of unobservable inputs to fair value
Forward foreign exchange contracts classified as other receivables and other payables in the condensed consolidated statement of financial position	**Assets – Nil and liabilities – Nil**	Assets – Nil and liabilities – 5	Level 2	Fair value derived from observable forward exchange rates at the end of the reporting period	N/A	N/A
Private fund classified as AFS investment in the condensed consolidated financial statements	**Investment in a private fund domiciled in the Cayman Islands – 6,862**	Investment in a private fund domiciled in the Cayman Islands – 7,204	Level 2	Fair value derived from observable market values of underlying assets quoted by relevant stock exchanges at the end of the reporting period	N/A	N/A
Short-term investments designated as financial assets at FVTPL	**Investment in interest bearing instruments – 887,612**	Investment in interest bearing instruments – 385,138	Level 3	Income approach – discounted cash flow method was used to capture the present value of the expected return on a prudent basis, assumed to approximate the minimum return, based on the Group's experience with the deposits which have matured to date	Expected guaranteed interest rate, mainly taken into account different counterpart financial institution, which ranged from 3.05% to 3.80% (31.12.2015: 3.30% to 3.80%) per annum	The higher the expected guaranteed interest rate, the higher the fair value, and vice versa

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

21. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS *(Continued)*

Financial assets and financial liabilities subject to offsetting

The disclosures set out in the table below include financial assets and financial liabilities that are offset in the Group's condensed consolidated statement of financial position.

The Group currently has a legally enforceable right to set off certain bank balances and short-term investments with bank borrowings at the same bank that are due to be settled on the same date and the Group intends to settle these balances on a net basis.

	As at 30 June 2016		
Financial assets/ liabilities subject to offsetting	**Gross amounts of recognised financial assets (liabilities)** *US$'000*	**Gross amounts of recognised financial (liabilities) assets set off in the condensed consolidated statement of financial position** *US$'000*	**Net amounts of financial assets (liabilities) presented in the condensed consolidated statement of financial position** *US$'000*
Bank balances	858,652	(858,652)	–
Short-term investments	66,352	(66,352)	–
Bank borrowings	(925,004)	925,004	–
Interest receivables	4,633	(3,582)	1,051
Interest payables	(3,582)	3,582	–

21. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS *(Continued)*

Financial assets and financial liabilities subject to offsetting *(Continued)*

	As at 31 December 2015		
Financial assets/ liabilities subject to offsetting	Gross amounts of recognised financial assets (liabilities) *US$'000*	Gross amounts of recognised financial (liabilities) assets set off in the consolidated statement of financial position *US$'000*	Net amounts of financial assets (liabilities) presented in the consolidated statement of financial position *US$'000*
Bank balances	1,653,685	(1,653,685)	–
Short-term investments	78,540	(78,540)	–
Bank borrowings	(1,732,225)	1,732,225	–
Interest receivables	13,525	(11,707)	1,818
Interest payables	(11,707)	11,707	–

22. RELATED PARTY DISCLOSURES

(a) During the current period, the Group entered into the following transactions with related parties, including Hon Hai, the ultimate holding company of the Company, and subsidiaries and associates of Hon Hai other than members of the Group:

	Six months ended	
	30.6.2016	30.6.2015
	US$'000	*US$'000*
	(unaudited)	(unaudited)
Hon Hai:		
Sales of goods	**2**	90
Purchase of goods	**15,967**	16,758
Purchase of property, plant and equipment	**377**	797
Sales of property, plant and equipment	**4**	1,027
Lease expense — real properties	**348**	373
Sub-contracting income	**16,148**	24,977
Consolidated services and sub-contracting expense	**897**	1,209
General services income	**301**	–
General services expense	**–**	180
Subsidiaries of Hon Hai:		
Sales of goods	**297,605**	182,499
Purchase of goods	**246,892**	220,263
Purchase of property, plant and equipment	**25,067**	34,730
Sales of property, plant and equipment	**1,808**	6,443
Lease income — real properties	**1,003**	937
Lease income — non-real properties	**203**	118
Lease expense — real properties	**1,546**	1,342
Lease expense — non-real properties	**2,275**	1,858
Sub-contracting income	**19,629**	31,938
Consolidated services and sub-contracting expense	**99,657**	94,625
General services income	**620**	788
General services expense	**5,480**	11,440
Associates of Hon Hai:		
Sales of goods	**1,330**	10,979
Purchase of goods	**43,307**	212,347
Purchase of property, plant and equipment	**4,062**	–
Sales of property, plant and equipment	**1**	92
Lease income — non-real properties	**15**	7
Lease expense — real properties	**7**	16
Lease expense — non-real properties	**11**	–
Sub-contracting income	**2**	32
Consolidated services and sub-contracting expense	**5,627**	7,593
General services income	**–**	27
General services expense	**117**	190

22. RELATED PARTY DISCLOSURES *(Continued)*

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

	30.6.2016	31.12.2015
	US$'000	*US$'000*
	(unaudited)	(audited)
Trade receivables:		
Hon Hai	**6,468**	6,432
Subsidiaries of Hon Hai	**175,964**	168,697
Associates of Hon Hai	**1,938**	7,331
	184,370	182,460
Other receivables:		
Hon Hai	**36**	13
Subsidiaries of Hon Hai	**6,198**	4,483
Associates of Hon Hai	**101**	117
	6,335	4,613
	190,705	187,073
Trade payables:		
Hon Hai	**10,669**	12,706
Subsidiaries of Hon Hai	**217,701**	260,704
Associates of Hon Hai	**34,802**	50,004
	263,172	323,414
Other payables:		
Hon Hai	**133**	3,981
Subsidiaries of Hon Hai	**26,086**	16,062
Associates of Hon Hai	**268**	57
	26,487	20,100
	289,659	343,514

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

22. RELATED PARTY DISCLOSURES *(Continued)*

(c) Compensation of key management personnel

The remuneration of directors and other members of key management for the period was as follows:

	Six months ended	
	30.6.2016	30.6.2015
	US$'000	*US$'000*
	(unaudited)	(unaudited)
Short-term benefits	**1,803**	1,728
Share-based payments	**–**	–
	1,803	1,728

(d) During the period, the Group entered into the following transactions with associates:

	Six months ended	
	30.6.2016	30.6.2015
	US$'000	*US$'000*
	(unaudited)	(unaudited)
Sales of goods	**3,121**	5,588
Purchase of goods	**61,873**	8,806
Sales of property, plant and equipment	**–**	1,813
Other income	**14,188**	1,575

The amounts due to associates was US$36,090,000 (31.12.2015: the amounts due to associates and a subsidiary of a joint venture were US$19,941,000), which were included in other payables, as at 30 June 2016.

23. EVENT AFTER REPORTING PERIOD

On 7 July 2016, the Group entered into a contributed charter capital transfer agreement (the "CCTA") to acquire the entire contributed charter capital of Microsoft Mobile (Vietnam) Limited Liability Company at a cash consideration of Vietnamese Dong 492,426 million (equivalent to approximately US$22,034,000). The closing of the transactions contemplated by the CCTA is subject to the occurrence of the CCTA closing date which in turn may occur upon the satisfaction of certain conditions. As at the reporting date, the acquisition is not yet completed. For details, please refer to the announcement of the Company dated 7 July 2016.

24. APPROVAL

The condensed consolidated financial statements on pages 4 to 32 were approved and authorised for issue by the board of directors of the Company on 11 August 2016.

BUSINESS REVIEW

IMPORTANT

As mentioned above, the Group's interim results for the six months ended 30 June 2016 set out in this report are unaudited, but have been reviewed in accordance with the relevant financial standards. The Group's results of operations in the past have fluctuated and may in the future continue to fluctuate (possibly significantly) from one period to another period. Accordingly, the Group's results of operations for any period should not be considered to be indicative of the results to be expected for any future period, and shareholders of the Company and potential investors are advised to exercise caution when dealing in the shares in the Company.

INTRODUCTION

Since its activation in 2003 and the listing of its shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in 2005, the Company has been a subsidiary of Hon Hai (a company incorporated in Taiwan whose shares are listed on the Taiwan Stock Exchange Corporation), and a leader for the handset industry worldwide as a vertically integrated manufacturing services provider offering a comprehensive range of end-to-end handset components and manufacturing and engineering services to its customers, which include unique product development and design, casings, components, full-system assembly etc and repair and other after-sales services. The Group has been using the business model of eCMMS (e-enabled Components, Modules, Moves and Services), and has successfully transformed its business model from OEM (original equipment manufacturing) to ODM (original design manufacturing) and IDM (integrated design and manufacture) by providing one-stop shopping end-to-end service of its competencies in mechanical, electronic and optical capabilities altogether. The Group works with its customers to develop their future products in accordance with their manufacturing requirements and product specifications, and aligns its investment in technology enhancement and R&D (research and development) activities to implement such requirements and specifications. The Company believes that a wider service platform, especially with high value-added contribution, could differentiate the Group from its competitors. The Group has strived to provide its customers with not only manufacturing support, but also a full range of cost-competitive services including repair, logistics and distribution services, and the Company believes that this strategy differentiates the Group from its competitors and will help to support its customers' products during their entire life cycle and reduce the time required to bring the products to market. In addition to handsets, the Group has been actively exploring opportunities in other related areas, such as wearable devices and mobile internet services.

The Group's major customers include top international brands and Chinese brands, and accordingly, has operations and manufacturing facilities spanning Asia-Pacific region (e.g. China, Taiwan and India) and the Americas which are located close to its customers to better facilitate their respective local needs and enable such customers to accelerate the launch of their products to market.

INTRODUCTION *(Continued)*

One of the key elements of the success of the Group is its talents, with its focus on human capital initiatives and strategic workforce planning in terms of talent acquisition, development, rewards, and retention. The Group has large and experienced R&D teams in China and Taiwan as it has foreseen significant opportunities for business growth by investing in R&D on top of its strong manufacturing and engineering capabilities to implement and execute the corresponding R&D requirements. The Group's success is highly dependent on its ability to attract and retain qualified employees, and has been recruiting talented individuals by offering more competitive compensation and benefits, more favourable working environment, broader customer reach, bigger scale in resources, training and job rotation, coupled with better career prospect across many different products and businesses. The Group strives to reinvent productivity to empower people and organisations to achieve more and increase agility, streamline engineering processes, move faster and more efficiently and simplify its organisation. By encouraging employees to bring up innovation at work, cooperating with customers on pioneer projects and supporting start-ups on manufacturing (or even with equity investments), the Group has successfully accumulated relevant experience.

DISCUSSION AND ANALYSIS

Review of Results and Operations

Financial Performance

For the six-month period ended 30 June 2016, the Group recognised a consolidated revenue of US$2,307 million, representing a decrease by US$1,522 million or 39.8%, when compared to US$3,829 million for the same period last year, and the decrease was primarily due to lower demands from some of the Group's major customers as a result of customer transition as well as lower other income like service fees and molding sales from such customers, as more particularly described in the Company's profit warning dated 5 May 2016. Gross profit for the period was US$134 million, representing a decrease of US$92 million from that for the same period last year as a result of a decrease of sales. Gross margin was 5.8% and remained stable when compared to that for the same period last year.

Despite the efforts made by the Group to control operating expenses, in light of the significant decrease of sales and other income as mentioned above, profit attributable to owners of the Company for the period was US$21.4 million, representing a decrease of US$108.4 million from that for the same period last year, and the 2016 1st half net profit margin was 0.93% which is lower than the 2015 1st half net profit margin of 3.39% by 2.46%.

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Review of Results and Operations *(Continued)*

Financial Performance *(Continued)*

To remain competitive, the Group has remained lean and controlled headcount and expenditures and managed to maintain operating expenses at reasonable stable level of US$156.8 million for the 1st half of 2016, when compared with US$168.6 million for the same period last year. As at 30 June 2016, the ROE (Return On Equity, representing the amount of net income returned as a percentage of shareholders' equity, which measures a company's profitability by revealing how much profit such company generates with the money that its shareholders have invested) was 0.61%, when compared with the ROE as at 31 December 2015 of 6.11%, as the net profit attributable to owners of the Company decreased during the current period. The Group strives to achieve a better ROE.

Effective income tax rate during the period was 59%, representing an increase by 38%, when compared to 21% for the same period last year. Since some of the subsidiaries of the Group incurred losses during the period and some profits generated by some other subsidiaries of the Group have already utilised the accumulated tax loss in the last period, the effective income tax rate increased accordingly.

Basic earnings per share for the period were US0.28 cent.

Dividends

On 15 March 2016, the board of directors of the Company (the "Board") resolved to recommend the declaration and payment of a final dividend of US$0.00869 per ordinary share of the Company (which in aggregate amounted to approximately US$68,599,000), and a special dividend of US$0.019 per ordinary share of the Company (which in aggregate amounted to approximately US$150,000,000), respectively, for the year ended 31 December 2015 (collectively, the "Dividends"), which were subject to the approval of the Company's shareholders. On 25 May 2016, the declaration and payment of the Dividends were approved by the Company's shareholders at the annual general meeting of the Company. Details regarding the Dividends are set out in the Company's circular dated 15 April 2016 and the Company's announcement dated 25 May 2016.

On 11 August 2016, the Board resolved not to recommend the payment of an interim dividend for the six months ended 30 June 2016.

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Review of Results and Operations *(Continued)*

Sales

The Group started its business serving international brands by manufacturing feature phones. With the launch of smart phones and the subsequent popularisation which has driven smart phone outsourcing, the Group has benefited from the trend. In the past couple of years, there has been market share reshuffles between international brands and other market players (like Chinese brands), and the Group saw diverse performance across its customers. During the period, competition was intensified, and the market shares of some of the Group's major customers declined quite dramatically in the 1st half of 2016 following their lackluster performance in 2015, and hence some of them drastically changed their outsourcing strategies through restructuring thereby cutting down the previously established outsourcing business with the Group, which directly hit the Group's sales.

In a slowing smart phone market where large players are experiencing growth saturation, emerging brands are disrupting existing brands' long-standing business models to gain their market shares. With such changing smart phone market dynamics, Chinese brands are emerging as the new top global brands. According to Gartner, two Chinese brands ranked within the top five worldwide smart phone vendors in the 1st quarter of 2015, and represented a total of 11% of the market shares; in the 1st quarter of 2016, three Chinese brands achieved a total of 17% of the market shares. The success of these Chinese brands lies in their good hardware designs, robust product quality, attractive prices, strong retailer penetration, and increasing brand awareness among mass-market consumers.

In order to fill up the shortfall due to the drop in sales by some major customers, the Group has put efforts to continue to diversify its customer base by reducing its customer concentration and using customer-centric approach to develop business with some of the Chinese brand customers. Since the competition of the saturated market is really keen, the Group needs more efforts and time to bring in new customers and get more order allocations from existing customers. Meanwhile, the Group pays extra attention to its cost control and competitiveness enhancement in order to offer attractive pricing to customers. For such purposes, the Group has continued to devote resources to maintain its R&D capability, advanced technology and large capacity instrumental for core competence and competitive edge.

To remain competitive, ramp-up time was shortened and the Group's production capacity and R&D capabilities were enhanced to cope with higher customer demands and cultivate long-term relationships and partnerships with customers via providing additional products and value-added solutions. At the same time, the Group has continued to review its global capacities to optimise resources and increase capacity in emerging markets like India and further align its manufacturing capacities with the geographic production demands of customers. With smart phone shipment growth slowing down, all these Chinese OEMs have to expand their reach outside of their own countries. The Company believes that India and other emerging markets in the Asia-Pacific region will drive most of the smart phone shipment growth in the coming years. Accordingly, the Group has been operating in India for years and has helped certain Chinese-brand customers to develop business in India.

In relation to the Group's continuous fostering and development of long-term relationships and partnerships with customers, on 18 May 2016, the Group entered into a collaboration with Nokia Technologies Ltd. and HMD global Oy with a view to building a globally successful business in the field of Nokia-branded mobile phones and tablets. For details of such collaboration, please refer to the Company's relevant announcement dated 18 May 2016.

P&L (Profit and Loss)

In 2015, several major bouts of financial volatility emanating from China shocked global markets and businesses. All these sudden developments caused increasing concerns on the global economic outlook. After a rocky start to 2016 marked by a sliding RMB, capital outflows and tumbling stock markets, China's economy seemed to have stabilised in March 2016, led by a surge in new credit and rebound in the housing market. Slowdown of global economy and smart phone shipment associated with market uncertainties arising from BREXIT (an exit by Britain from European Union), intensified industry competition and continuing market share reshuffle in aggregate induced pricing pressure on the Group and hence adverse impacts on its sales, gross profit and other income for the 1st half of 2016.

To relieve its gross margin erosion pressure and for the purpose of increasing business visibility, the Group has strived to improve efficiency and yield by enhancing production automation and tighter control on manufacturing overheads, asset utilisation and capacity optimisation. The Group's automation engineering team has continued to increase automation coverage across different manufacturing processes to lighten the impact of rising labour cost and enhance efficiency. The Group's dedicated and professional procurement team is leveraged to source materials with competitive prices. Also, there has been continuous strong support from the Company's ultimate controlling shareholder, Hon Hai, and its other subsidiaries, to offer in scale, solid component support and stable supply of key components and vertically integrated supply chain that allow for production synergies. All these initiatives have been implemented thus mitigating the impacts from gross margin erosion and product mix deterioration with lower ASP (average selling price) pressure.

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Review of Results and Operations *(Continued)*

Operating Segments

Across overall business in the 1st half of 2016, Asia segment remained the Group's core performance contributor, and the revenue of Asia segment was US$2,020 million, representing a decrease of 18.2% from that for the same period last year (1st half of 2015: US$2,470 million), and recorded earnings of US$140 million, reflecting 31.4% decline over those for the same period last year (1st half of 2015: US$204 million). The emerging Chinese brands have continued to gain market shares from international brands and maintain sustainability in the saturated China market due to the former's attractive pricing and localised design. Amid fierce competition, China smart phone market continues to be the focus of the Group. Years ago, the Group has shifted the gravity of operations to China (for manufacturing products for the domestic market and export and product development) and Taiwan (for R&D) after the downsizing of European sites, and resources have been continuously devoted to Asia segment (which is of further growth potential) so as to further enhance the capacity, capability, competence and presence of the Group in Asia segment (including India) and develop more new businesses and customers there. However, due to those negative factors mentioned above, the earnings of Asia segment declined.

The Group has also started to become active in India since the 2nd half of 2015. New production capacity was added in Andhra Pradesh State catering to the increasing domestic demands and the Indian Government's "Make-in-India" initiatives. The new facility in Maharashtra State will start operation in the 2nd half of 2016.

Certain key customers of the Group which previously shipped a lot of products to America segment reduced their orders to the Group thereby adversely affecting this segment. The recorded revenue of America segment for the 1st half of 2016 was US$190 million when compared with recorded revenue of US$1,235 million for the same period last year. Similar to Asia segment, negative factors have also affected the profitability of America segment. The recorded earnings for the 1st half of 2016 were US$6 million when compared with the recorded earnings of US$49 million for the same period last year. The performance of America segment had adverse impact on the Group's overall performance as earnings of America segment had dropped during the period.

The performance of Europe segment remained less significant as the economic environment there was comparatively not as good and there has been a relatively aggressive pricing strategy. The recorded earnings of this segment for the 1st half of 2016 were US$0.5 million when compared with the recorded earnings of US$0.7 million for the same period last year. The performance of Europe segment did not have much adverse impact on the Group's overall performance as European sites have been downsized in prior years.

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Review of Results and Operations *(Continued)*

Investments

The Group has continued to enhance its EMS (electronics manufacturing services) and related fulfillment businesses and also enlarge its mobile internet platform and ecosystem through investments and M&A (mergers and acquisitions) activities.

On 18 May 2016, the Group entered into an agreement with Microsoft Mobile Oy (as seller) and HMD global Oy (as another purchaser) to acquire certain assets of the feature phone business currently operated by Microsoft Corporation, comprising a manufacturing facility in Vietnam and certain other assets that are utilised in the conduct of such feature phone business at a total consideration of US$350 million (US$20 million of which being payable by HMD global Oy), which consideration shall be subject to adjustment in accordance with the agreement (the "Proposed Acquisition"). The Company believes that the Proposed Acquisition will galvanise the Group's leading position as a vertically integrated manufacturing service provider by reinforcing and expanding its EMS and fulfillment businesses relating to feature phones in emerging or less developed markets, and that the Group will leverage its existing industry expertise, facilities, personnel and manufacturing capabilities to maximise synergies with respect to the Proposed Acquisition thereby enhancing the Group's overall commercial capabilities (in terms of design, manufacturing, logistics and distribution) in the mobile handset industry in support of businesses with more customers through the development of more global fulfillment services as well as new markets and new products. For details of the Proposed Acquisition, please refer to the relevant announcement made by the Company on 18 May 2016.

In the current period, the Group also invested in several cloud computing and smart product companies with growth potential. By investing in these companies with specialised software capabilities, the Group can broaden its capability reach to cloud computing and big data applications and hence provide better solutions in design and manufacturing processes thus creating better values to its customers. In particular, the Group invested US$2 million and US$1 million in cloud computing service producers namely AthenTek Global Inc. and Cloudminds Inc., respectively.

The Group has also continued to invest in its existing investees. In addition to its previous investments of a total of US$19 million, the Group further invested US$5 million in Meitu, Inc. ("Meitu"), a leading mobile internet platform company specialising in photo and video applications (notably MeituPic, BeautyCam and Meipai), as well as selling self-branded smart phones for optimised selfie experience. By participating in another round of investment, the Group had strengthened its ties with Meitu, with an aim to creating greater synergies in the segment of mobile internet platform and social networking dominance.

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Review of Results and Operations *(Continued)*

Investments *(Continued)*

For the six-month period ended 30 June 2016, a material impairment in respect of the Group's above investments and other significant investments (such as the Company's investments in Snapdeal, MoMagic and migme respectively) as more particularly described in the "Discussion and Analysis" section of the Report of the Directors of the Company (incorporated in the Company's 2015 Annual Report) was not reasonably foreseeable, though the Company was cautious about the performance of certain investees in which the Company has held significant investments, and would continue to regularly review and monitor the performance of such investees and check if there would be any potential material impairment indicator. Such investments are still in their growing phases, and on the basis of the information on hand, the Company believes that their long-term prospects are positive.

The Group has been maintaining healthy cash flows for years. As at 30 June 2016, the Group had a cash balance of US$1,523 million, which provides the Group with adequate financial resources to cope with unforeseen operational fluctuations, as well as to enrich suitable investment portfolios. The Group's experienced investment team has continued to explore opportunities with massive upwards potential in the long run.

There had been no material disposals of the Group's subsidiaries, associates and joint ventures in the six-month period ended 30 June 2016.

Liquidity and Financial Resources

As at 30 June 2016, the Group had a cash balance of US$1,523 million (31.12.2015: US$1,950 million). Free cash flow, representing the net cash from operating activities of US$267 million (31.12.2015: US$877 million) minus capital expenditure and dividends of US$270 million (31.12.2015: US$365 million), was US$3 million outflow (31.12.2015: US$512 million inflow). The deterioration in free cash flow was mainly due to lower demands from some of the Group's major customers which decreased the net cash from the operating activities. The Group has abundant cash to finance its operations and investments. The Group's gearing ratio, expressed as a percentage of interest bearing external borrowings of US$23 million (31.12.2015: US$13 million) over total assets of US$5,358 million (31.12.2015: US$5,805 million), was 0.43% (31.12.2015: 0.22%). All of the external borrowings were denominated in RMB and JPY (31.12.2015: 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 0.3% to 2.1% (31.12.2015: 1.1%) per annum with original maturity of two to three months (31.12.2015: six months).

As at 30 June 2016, the Group's cash and cash equivalents were mainly held in US Dollars and RMB.

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Liquidity and Financial Resources *(Continued)*

Net cash from operating activities for the six months ended 30 June 2016 was US$267 million.

Net cash used in investing activities for the six months ended 30 June 2016 was US$446 million, of which, mainly, US$51 million represented the expenditures on property, plant and equipment related to the facilities in the Group's major sites in the PRC, US$117 million represented withdrawal of bank deposits, US$2,763 million represented purchase of short-term investments, US$7 million represented purchase of available-for-sale investments, US$1 million represented capital contribution to a joint venture, US$3 million represented proceeds from disposal of property, plant and equipment, and US$2,256 million represented proceeds from settlements of short-term investments.

Net cash used in financing activities for the six months ended 30 June 2016 was US$210 million, primarily due to net increase in bank borrowings of US$9 million and dividends paid of US$219 million.

Exposures to Currency Risk and Related Hedges

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

Besides, the Group sometimes entered into short-term forward foreign currency contracts (usually with tenors less than three months) to hedge the currency risk resulting from its short-term bank borrowings (usually with tenors of one to six 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 2016, the capital commitment of the Group was US$18.8 million (31.12.2015: US$16.9 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 2016 and 31 December 2015.

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Outlook

The global economy continues to be uncertain and challenging in the 1st half of 2016, and may continue to negatively impact end market demands and the Group's operations, taking into account market uncertainties arising from BREXIT, disruptions in the financial credit markets, volatile currency exchange rates and concerns about inflation, as well as adverse business conditions and liquidity concerns and currency fluctuations in emerging markets. Uncertainties surrounding the current global economic and geo-political outlook continue to limit the overall demand visibility of the Group's end markets and slow down growth of worldwide smart phone market which in turn may impact future demands of the products that the Group will manufacture and the services that the Group will provide, the financial conditions of the Group's customers, suppliers and other business partners, as well as the pace of the Group's customer diversification and development.

As mentioned above, Asia segment has remained the Group's core performance contributor, and China is the focus of Asia segment. China's economy is unmistakably slowing, and recent market turmoil has generated much more concerns as to where it is now heading. Growth momentum appears to have moderated slightly in the 2nd quarter of 2016 as the policy stimulus unveiled at the end of 2015 and in the first few months of 2016 has started to fade away. On the external side of the Chinese economy, exports continue to be hit by subdued global demands, while RMB is under pressure due to BREXIT fears and uncertainties about monetary policy normalisation in the United States. Analysis of economic data shows that China is transitioning from an investment-intensive, export-led model of growth, to one driven by consumption and innovation. This process has led to the emergence of a two-track economy: one track — in basic manufacturing and traditional industries — is experiencing significant headwinds; while a second track — in services, advanced manufacturing and consumer markets — is exhibiting strong growth potential.

Outlook *(Continued)*

The competitive environment in the Group's industry is very intense, and aggressive pricing is a common business dynamic. China, the world's largest smart phone market, becomes mature and heavily penetrated. Slower growth and market saturation could bring about industry consolidation which can result in larger and more geographically diverse competitors who have significant combined resources with which to compete against the Group. As end demands for smart phones for the 1st half of 2016 remained at low year-on-year growth, competition from EMS/ODM peers is deemed to intensify to create pressure on the Group's business. The Group also faces competition from the manufacturing operations of its current and potential customers, who are continually evaluating the merits of manufacturing products in-house against the advantages of outsourcing. All of these developments could potentially cause a decline in the Group's sales, loss of market acceptance of its services, compression of its profits or loss of its market share. Meanwhile, there have been constant changes in both technologies and business models. Each industry shift is an opportunity to conceive new products, new technologies or new ideas that can further transform the industry and the Group's business. The Group has been investing in a broad range of R&D activities that seek to identify and address the changing demands of customers, industry trends and competitive forces.

Conditions are challenging for smart phone vendors, and the Company expects to see a consolidation of the smart phone market in the coming quarters. As mentioned above, there are bright spots where Chinese OEMs continue to gain market shares since then, whose shipments have increased dramatically. These vendors are expanding beyond China, noting they are well positioned to serve emerging market demands for mid-range and low-end smart phones through utilising manufacturing cost advantages, nurturing their channels, spending on marketing, making their differentiators around technology, and positioning abundantly clear to consumers. Mobile manufacturers have opportunities to penetrate lower tier segments in regions such as emerging Asia/Pacific and EMEA (Europe and Middle-east Asia) markets, capitalising on the remaining shift from feature phones to smart phones and benefit from increased demands for affordable smart phones. While affordability is a key engine of the remaining smart phone market growth, channel strategy and knowledge of local consumer market dynamics have become increasingly important. With smart phone shipment growth slowing down, the major factor for all these Chinese OEMs will be how they manage to expand their reach outside of their own countries as in international markets, premium quality very soon devolves into price competition. The Group can help these Chinese brands to expand aggressively in overseas markets, and these customers want to leverage on the Group to extend their footprints in India and other emerging markets. Since 2015, given the Group's industry leading experience in managing Indian operations and broad service offerings that cover almost every part of the value chain, the Group has been expanding its local manufacturing service and component supply chain support in India to benefit from the Indian Government's "Make-in-India" initiatives, and can address both the domestic Indian market and export demands. The Group's core strategy is to establish and maintain long-term relationships with leading companies in expanding businesses in terms of new products and new markets with the size and growth characteristics that can benefit from highly automated, continuous flow manufacturing on a global scale.

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Outlook *(Continued)*

In light of the above uncertainties and challenges, the Group will continue with the challenging customer mix transition and the concentrated efforts to diversify customer base by developing more businesses with the Chinese brands as well as other emerging players in the market, and will continue to devote resources to enhance its core competences, remain agile and competitive in providing its customers with differentiated contributions to their supply chain and overall business. In particular, the Group will focus on those in emerging markets and in the mobile internet business. To meet its customers' increasingly sophisticated needs, the Group has continuously engaged in product research and design activities which are necessary to manufacture its customers' products in the most cost-effective and consistent manner, and focused on assisting its customers with product creation, development and manufacturing solutions.

Apart from its existing business, the Group is dedicated to exploiting new business by establishing strategic partnerships (such as the collaboration with Nokia Technologies Ltd. as mentioned above) and making equity investments, which are expected to be funded by cash generated from the Group's operations and the cash on hand. There are currently no financing plans to meet capital commitments, nor repayment of current debts, and it is not envisaged that there will be fund-raising activities for the rest of 2016.

Looking ahead, the Company understands the tremendous challenges in 2016. The Group will focus on improving operational efficiency and cost saving to cope with economic uncertainties. Remaining lean and agile enables the Group to be flexible in running even low-volume/high-mix businesses at competitive pricing. Other factors like heightened uncertainty over the global/Chinese/US macro outlook, rising interest rate and international political instability are the other uncertainties which have far-reaching implications and impacts. In response, the Group has implemented and maintained sound and effective systems of internal control and enterprise risk management to cope with all these challenges and uncertainties from time to time as well as to maintain and enhance its performance. For details, please refer to the "Accountability and Audit" section of the Company's Corporate Governance Report (incorporated in its 2015 Annual Report).

Nevertheless, the Company is committed to have solid execution and continue its relentless drive with extra efforts to stay competitive whilst remaining cautious in investments, capital expenditure and business operations.

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Employees

As at 30 June 2016, the Group had a total of 78,958 (31.12.2015: 81,013) employees. Total staff costs incurred during the six months ended 30 June 2016 amounted to US$181 million (30.6.2015: US$203 million). The Group offers a comprehensive remuneration policy which is reviewed by the management on a regular basis. In general, the Group's merit-based remuneration policy rewards its employees for good performance and productivity. The Group treats all employees equally and fairly and evaluates employee performance (including determining promotions and wage increments) based on merit and ability. To encourage employee retention, the Group has implemented annual bonuses, time-based incentives and other incentive programs. In particular, 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. The Group has also introduced non-monetary rewards (including housing incentives) for employees with exceptional performance.

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

Employees are appraised on an annual basis in order to assess performance and arrange specific on-the-job training to further their growth and development. Based on the Group's operational needs and business goals, the Group evaluates and explores the needs of its employees through systematic and professional means so as to formulate suitable talent development plans and educational courses for employees. The Group provides training on various areas such as occupational safety, regulations, technical skills, management skills and social and environmental responsibility in order to enhance employees' knowledge and performance.

OTHER INFORMATION

DIRECTORS

Pursuant to the approval of the Board on 15 March 2016 and the approval of the Company's shareholders on 25 May 2016, the appointment of Dr. Daniel Joseph MEHAN, an independent non-executive director of the Company, was renewed for a term of three years ending on 23 July 2019 subject to retirement and re-election under the articles of association of the Company. He is entitled to a fee for his services as an independent non-executive director of the Company of HK$20,000 (equivalent to approximately US$2,578) per month (less any necessary statutory deductions).

Pursuant to the approval of the Board on 15 March 2016 and the approval of the Company's shareholders on 25 May 2016, the appointment of Mr. LAU Siu Ki, an independent non-executive director of the Company, was renewed for a term of three years ending on 30 November 2019 subject to retirement and re-election under the articles of association of the Company. He is entitled to a fee for his services as an independent non-executive director of the Company of HK$20,000 (equivalent to approximately US$2,578) per month (less any necessary statutory deductions) as well as an allowance for his services as the chairman of the audit committee, remuneration committee and nomination committee respectively of the Company of HK$6,000 (equivalent to approximately US$773.4) per month (less any necessary statutory deductions).

Dr. LEE Kuo Yu retired as a non-executive director of the Company with effect from 29 May 2016. It followed that she ceased to be the member of the audit committee, remuneration committee and nomination committee respectively of the Company with effect from 29 May 2016.

Mr. CHEN Fung Ming, an independent non-executive director of the Company, was appointed as the member of the audit committee, remuneration committee and nomination committee respectively of the Company with effect from 29 May 2016.

Dr. LEE Jer Sheng retired as an executive director of the Company with effect from 7 June 2016. It followed that he ceased to be the member of the corporate governance committee of the Company with effect from 7 June 2016.

Mr. WANG Chien Ho was appointed as an executive director of the Company with effect from 7 June 2016.

Mr. TONG Wen-hsin, the Chairman and an executive director of the Company, was appointed as the member of the corporate governance committee of the Company with effect from 7 June 2016.

DISCLOSURE OF INTERESTS

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

As at 30 June 2016, the interests and short positions, if any, of each director and chief executive of the Company in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (the "SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the directors and chief executive were taken or deemed to have under such provisions of the SFO), or which were required to be and were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") adopted by the Company were as follows:

Name of director	Name of corporation	Capacity/ Nature of interest	Total number of ordinary shares	Approximate percentage of interest in the Company/ associated corporation
TONG Wen-hsin *(Note 1)*	Company	Personal Interest	2,533,266	0.0321%
	Hon Hai	Personal Interest	142,117	0.0009%
CHIH Yu Yang *(Note 2)*	Company	Personal Interest	11,975,955	0.1517%
	Hon Hai	Personal Interest	2,141,995	0.0137%
	Chiun Mai Communication Systems, Inc. *(Note 3)*	Personal Interest	1,000	0.0007%

Notes:

1. 2,533,266 shares include 1,300,761 shares which are issuable upon vesting of the share grants granted under the Existing Share Scheme.

2. 11,975,955 shares include 3,251,902 shares which are issuable upon vesting of the share grants granted under the Existing Share Scheme.

3. The Company indirectly, through its wholly-owned subsidiaries, holds approximately 86.65% of the entire number of issued shares of Chiun Mai Communication Systems, Inc., a company incorporated in Taiwan.

DISCLOSURE OF INTERESTS *(Continued)*

Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures *(Continued)*

Save as disclosed above, none of the directors or chief executive of the Company had, as at 30 June 2016, any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the directors and chief executive of the Company were taken or deemed to have under such provisions of the SFO), or which were required to be and were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares

So far as is known to any director of the Company, as at 30 June 2016, shareholders (other than the directors or chief executive of the Company) who had interests and short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were required to be and were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name of substantial shareholder	Capacity/ Nature of interest	Total number of ordinary shares	Approximate percentage of interest in the Company
Foxconn (Far East) Limited	Beneficial owner	5,081,034,525	64.37%
Hon Hai *(Notes)*	Interest of a controlled corporation	5,081,034,525	64.37%

Notes:

1. Foxconn (Far East) Limited is a direct wholly-owned subsidiary of Hon Hai, and therefore, Hon Hai is deemed or taken to be interested in the 5,081,034,525 shares which are beneficially owned by Foxconn (Far East) Limited for the purposes of the SFO.

2. Mr. WANG Chien Ho, an executive director of the Company, is an employee of the Hon Hai Group (comprising of Hon Hai, its subsidiaries and associates).

DISCLOSURE OF INTERESTS *(Continued)*

Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares *(Continued)*

Save as disclosed above, as at 30 June 2016, the Company had not been notified by any persons (other than the directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would be required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were required to be and were recorded in the register required to be kept by the Company under Section 336 of the SFO.

SHARE OPTION SCHEME AND SHARE SCHEME

During the six months ended 30 June 2016, no option was granted under the Existing Option Scheme and no share was awarded under the Existing Share Scheme.

Apart from the Existing Option Scheme and the Existing Share Scheme, at no time during the six months ended 30 June 2016 was the Company, any of its subsidiaries, its holding company or any subsidiary of the Company's holding company a party to any arrangement to enable the directors of the Company to acquire benefits by means of acquisitions of shares in, or debenture of, the Company or any other body corporate.

DIVIDEND

The directors did not recommend the payment of an interim dividend for the six months ended 30 June 2016.

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 2016.

RESERVES

Movements in reserves of the Group during the six months ended 30 June 2016 are set out on page 8.

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 and risk management systems, nominate and monitor external auditors and provide advice and comments to the Board. The audit committee comprises three 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 2016 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 as set out in Appendix 10 to the Listing Rules. Following specific enquiry made by the Company, all the directors of the Company have confirmed that they have complied with the required standards set out in the Model Code in respect of the Company's securities throughout the six months ended 30 June 2016.

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 2016 to 30 June 2016.

As an enhancement of the Company's corporate governance practices and for the purpose of complying with any disclosure requirements applicable to the Company's holding company (direct or indirect) and/or other affiliate, in particular, the Board (with the recommendation from the Company's corporate governance committee) adopted on 5 May 2016 (among other things) the revised procedures for the handling and dissemination of inside information and handling enquiries from the Stock Exchange (which procedures form part of the Company's Corporate Governance Compliance Manual).

On behalf of the Board
TONG Wen-hsin
Chairman

Hong Kong, 11 August 2016