FIH® 富智康™

FIH Mobile Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2038

Interim Report 2014

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)*
LEE Jer Sheng

NON-EXECUTIVE DIRECTOR

LEE Kuo Yu

INDEPENDENT NON-EXECUTIVE DIRECTORS

LAU Siu Ki
Daniel Joseph MEHAN
CHEN Fung Ming

COMPANY SECRETARY

LAW Sai Hay

REGISTERED OFFICE

Floor 4, Willow House
Cricket Square, P O Box 2804
Grand Cayman KY1-1112
Cayman Islands

HEAD OFFICE

No. 18 Youyi Road
Langfang Economic and Technological Development Zone
Hebei Province
People's Republic of China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

8th Floor, Peninsula Tower
538 Castle Peak Road
Cheung Sha Wan
Kowloon
Hong Kong

AUDITORS

Deloitte Touche Tohmatsu

LEGAL ADVISORS

Clifford Chance, 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
Industrial and Commercial Bank of China
Mizuho Corporate Bank
Standard Chartered Bank
Taipei Fubon Bank
The Hongkong and Shanghai Banking Corporation Limited

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
46th Floor, Hopewell Centre
183 Queen's Road East
Wan Chai
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 33, which comprise the condensed consolidated statement of financial position as of 30 June 2014 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
12 August 2014

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2014

	NOTES	Six months ended 30.6.2014 US$'000 (unaudited)	30.6.2013 US$'000 (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
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

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

FOR THE SIX MONTHS ENDED 30 JUNE 2014

		Six months ended	
		30.6.2014	30.6.2013
	NOTES	***US$'000***	*US$'000*
		(unaudited)	(unaudited)
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 cent**	US0.24 cent
Diluted		**US0.65 cent**	US0.24 cent

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

AT 30 JUNE 2014

	NOTES	**30.6.2014** **US$'000** **(unaudited)**	31.12.2013 US$'000 (audited)
Capital and reserves			
Share capital	17	**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	18	**31,460**	32,671
		31,466	32,686
		3,804,950	3,741,175

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2014

	Attributable to owners of the Company											
	Share capital	Share premium	Special reserve	Revaluation reserve	Other reserve	Legal reserve	Translation reserve	Share compensation reserve	Retained profits	Total	Non-controlling interests	Total equity
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Balance at 1 January 2013 (audited)	292,493	863,432	15,514	–	(3,159)	165,293	443,836	75,750	1,662,638	3,515,797	10,758	3,526,555
Other comprehensive income (expense) for the period	–	–	–	–	–	–	10,819	–	–	10,819	(340)	10,479
Profit (loss) for the period	–	–	–	–	–	–	–	–	17,659	17,659	(424)	17,235
Total comprehensive income (expense) for the period	–	–	–	–	–	–	10,819	–	17,659	28,478	(764)	27,714
Issue of ordinary shares under Former Option Scheme and Former Share Scheme	5,825	63,641	–	–	–	–	–	(66,429)	–	3,037	–	3,037
Recognition of equity-settled share-based payments	–	–	–	–	–	–	–	7,315	–	7,315	–	7,315
Payment made for equity-settled share-based payments	–	–	–	–	–	–	–	(2,646)	–	(2,646)	–	(2,646)
Transfer to legal reserve	–	–	–	–	–	929	–	–	(929)	–	–	–
Transfer *(note)*	–	–	–	–	–	–	–	(455)	455	–	–	–
Balance at 30 June 2013 (unaudited)	298,318	927,073	15,514	–	(3,159)	166,222	454,655	13,535	1,679,823	3,551,981	9,994	3,561,975

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(Continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2014

	Attributable to owners of the Company											
	Share capital	Share premium	Special reserve	Revaluation reserve	Other reserve	Legal reserve	Translation reserve	Share compensation reserve	Retained profits	Total	Non-controlling interests	Total equity
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Balance at 1 January 2014 (audited)	302,963	985,478	15,514	–	(2,866)	166,240	490,051	1,296	1,739,989	3,698,665	9,824	3,708,489
Other comprehensive expense for the period	–	–	–	(101)	–	–	(14,771)	–	–	(14,872)	–	(14,872)
Profit (loss) for the period	–	–	–	–	–	–	–	–	49,853	49,853	(14)	49,839
Total comprehensive (expense) income for the period	–	–	–	(101)	–	–	(14,771)	–	49,853	34,981	(14)	34,967
Issue of ordinary shares under Former Option Scheme and New Share Scheme	6,355	74,205	–	–	–	–	–	(66,240)	–	14,320	–	14,320
Recognition of equity-settled share-based payments	–	–	–	–	–	–	–	21,061	–	21,061	–	21,061
Payment made for equity-settled share-based payments	–	–	–	–	–	–	–	(5,353)	–	(5,353)	–	(5,353)
Transfer to legal reserve	–	–	–	–	–	258	–	–	(258)	–	–	–
Transfer *(note)*	–	–	–	–	–	–	–	(36)	36	–	–	–
Balance at 30 June 2014 (unaudited)	309,318	1,059,683	15,514	(101)	(2,866)	166,498	475,280	(49,272)	1,789,620	3,763,674	9,810	3,773,484

Note: The amount represents aggregate of the amount previously recognised in share compensation reserve in respect of those share options forfeited after vesting date, and the amount previously recognised in share compensation reserve in respect of those differences between the market prices of vested share awards at grant date and market prices of ordinary shares subsequently purchased by trustee from the stock market.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2014

	Six months ended	
	30.6.2014	30.6.2013
	US$'000	*US$'000*
	(unaudited)	(unaudited)
Net cash from operating activities	**191,812**	139,471
Investing activities		
Purchase of short-term investments	**(545,906)**	–
Purchase of property, plant and equipment	**(52,411)**	(29,896)
Purchase of available-for-sale investments	**(33,084)**	–
Withdrawal (placement) of bank deposits for investing purpose	**163,589**	(100,030)
Proceeds from disposal of property, plant and equipment	**15,630**	13,476
Capital contribution to a joint venture	**–**	(3,060)
Deposits paid for acquisition of property, plant and equipment	**–**	(206)
Proceeds from disposal of available-for-sale investments	**–**	21
Net cash used in investing activities	**(452,182)**	(119,695)
Financing activities		
Bank borrowings repaid	**(1,733,140)**	(1,304,831)
Bank borrowings raised	**1,697,506**	1,614,041
Proceeds from issue of new shares	**14,320**	3,037
Net cash (used in) from financing activities	**(21,314)**	312,247
Net (decrease) increase in cash and cash equivalents	**(281,684)**	332,023
Cash and cash equivalents at 1 January	**2,124,079**	1,916,998
Effect of foreign exchange rate changes	**(20,896)**	16,810
Cash and cash equivalents as at 30 June, representing bank balances and cash	**1,821,499**	2,265,831

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2014

1. 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").

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.

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.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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. Disclosures relating to the Group's offsetting arrangements are set out in note 21.

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.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Except as described below, the critical accounting judgements and the key sources of estimation uncertainty which have been made and assessed by the directors of the Company are the same as those disclosed in the preparation of the Group's annual financial statements for the year ended 31 December 2013.

Key source of estimation uncertainty

Fair value measurements and valuation processes

Some of the Group's assets and liabilities are measured at fair value for financial reporting purposes. The directors of the Company has set up a valuation team, which is headed up by the Chief Financial Officer of the Company, to determine the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group's valuation team will perform the valuation. If the valuation involves complicated calculation, the Group engages third party qualified valuers to perform the valuation and the valuation team works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. Where there is a material change in the fair value of the assets/liabilities, the causes of the fluctuations will be reported to the directors of the Company.

The Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments. Note 21 provides detailed information about the valuation techniques, inputs and key assumptions used in the determination of the fair value of various assets and liabilities.

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.

4. SEGMENT INFORMATION *(Continued)*

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

8. EARNINGS PER SHARE *(Continued)*

	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	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 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.

11. DEFERRED TAXATION *(Continued)*

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	31.12.2013
	US$'000	*US$'000*
	(unaudited)	(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. SHARE CAPITAL

	Number of shares	Amount US$'000
Ordinary shares of US$0.04 each, authorised:		
Balance at 1 January 2013, 31 December 2013 and 30 June 2014	20,000,000,000	800,000
Ordinary shares of US$0.04 each, issued and fully paid:		
Balance at 1 January 2013	7,312,327,344	292,493
Exercise of share options *(note 20(a))*	36,055,551	1,442
Issue pursuant to the Former Share Scheme *(note 20(b))*	225,680,379	9,028
Balance at 31 December 2013	7,574,063,274	302,963
Exercise of share options *(note 20(a))*	30,680,472	1,227
Issue pursuant to the New Share Scheme *(note 20(b))*	128,215,387	5,128
Balance at 30 June 2014	7,732,959,133	309,318

18. DEFERRED INCOME

	30.6.2014 ***US$'000*** **(unaudited)**	31.12.2013 *US$'000* (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.

19. CAPITAL COMMITMENTS

	30.6.2014 ***US$'000*** **(unaudited)**	31.12.2013 *US$'000* (audited)
Commitments for the acquisition of property, plant and equipment contracted but not provided for	**29,231**	15,781

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 "New Option Scheme") on 26 November 2013 and consequentially terminated the Former Option Scheme. For the avoidance of doubt, no further options will be granted under the Former Option Scheme after its termination, but in all other aspects, the provisions of the Former Option Scheme shall remain in full force and effect. Accordingly, all options granted prior to the termination of the Former Option Scheme and not then exercised shall remain valid and shall continue to be subject to the provisions of the Former Option Scheme and Chapter 17 of the Listing Rules. The New Option Scheme will expire on 25 November 2023, unless otherwise terminated in accordance with its terms.

Currently, no options have been granted under the New Option Scheme. Details of the outstanding share options granted under the Former Option Scheme during the current period are as follows:

Option type	Outstanding at 1.1.2014	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period	Outstanding at 30.6.2014
2011	157,670,091	–	(30,680,472)	(648,713)	–	126,340,906

126,340,906 share options are exercisable as at 30 June 2014 (31.12.2013: 86,140,498).

The weighted average closing price of the Company's shares immediately before the dates on which the options were exercised during the current period was US$0.57 (equivalent to HK$4.39).

The Group recognised total expense of US$9,000 (for the six months ended 30 June 2013: US$1,466,000) for the six months ended 30 June 2014 in relation to the share options granted by the Company.

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 may 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 (also known as Hon Hai Precision Industry Co. Ltd.) ("Hon Hai") and any of its subsidiaries.

Pursuant to the approval of the board of directors of the Company on 28 December 2012, the Company offered 135,564,990 ordinary shares to certain employees pursuant to the Former Share Scheme, of which 120,630,224 ordinary shares were granted without lock-up periods, while the remaining shares were granted with lock-up periods ranging from one to two years from the grant date. No consideration was payable on the grant of the shares. 135,564,990 ordinary shares were subsequently issued on 4 January 2013.

Pursuant to the approval of the board of directors of the Company on 22 April 2013, the Company offered 10,633,361 ordinary shares to certain employees pursuant to the Former Share Scheme, of which 4,422,721 ordinary shares were granted without lock-up periods, while the remaining shares were granted with lock-up periods ranging from one to two years from the grant date. No consideration was payable on the grant of the shares. 3,556,758 ordinary shares were subsequently issued on 26 April 2013 and 7,076,603 ordinary shares were purchased by the trustee of the Former Share Scheme from the stock market in April 2013.

Pursuant to the approval of the board of directors of the Company on 17 October 2013, the Company offered 92,215,205 ordinary shares to certain employees pursuant to the Former Share Scheme, of which 58,257,920 ordinary shares were granted without lock-up periods, while the remaining shares were granted with lock-up periods ranging from one to two years from the grant date. No consideration was payable on the grant of the shares. 86,558,631 ordinary shares were subsequently issued on 24 October 2013 and 5,656,574 ordinary shares were purchased by the trustee of the Former Share Scheme from the stock market in October 2013.

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 "New 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.

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

(b) Other share-based payment plan *(Continued)*

Pursuant to the approval of the Company's officers/delegates (as duly authorised by the board of directors of the Company) on 8 May 2014, the Company offered 138,267,922 ordinary shares to certain employees pursuant to the New Share Scheme with lock-up periods ranging from one to three years from the grant date. No consideration was payable on the grant of the shares. 128,215,387 ordinary shares were subsequently issued on 16 May 2014 and 10,052,535 ordinary shares were purchased by the trustee of the New Share Scheme from the stock market in May 2014.

The Group recognised total expense of US$21,052,000 (for the six months ended 30 June 2013: US$5,849,000) 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 30.6.2014 *US$'000*	Fair value as at 31.12.2013 *US$'000*	Fair value hierarchy	Valuation technique(s) and key inputs	Significant unobservable input(s)	Sensitivity/ relationship of unobservable inputs to fair value
Held-for-trading non-derivative financial assets classified as short-term investments in the condensed consolidated financial statements	**Listed equity securities in the United States – US$6,431**	Nil	Level 1	Quoted bid prices in an active market	N/A	N/A
Forward foreign exchange contracts classified as other receivables and other payables in the condensed consolidated statement of financial position	**Assets – US$650 and liabilities – US$528**	Assets – US$1,907 and liabilities – US$1,085	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 investments in the condensed consolidated financial statements	**Investment in a private fund domiciled in the Cayman Islands – US$8,399**	Nil	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

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 30.6.2014 *US$'000*	Fair value as at 31.12.2013 *US$'000*	Fair value hierarchy	Valuation technique(s) and key inputs	Significant unobservable input(s)	Sensitivity/ relationship of unobservable inputs to fair value
Short-term investments designated as financial assets at FVTPL	**Investment in interest bearing instruments – US$543,291**	Nil	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 4.80% to 5.40%	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 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 2014		
Financial assets/liabilities subject to offsetting	**Gross amount of recognised financial assets/liabilities**	**Gross amounts of recognised financial liabilities/ assets set off in the statement of financial position**	**Net amounts of financial assets/ liabilities presented in the statement of financial position**
	US$'000	***US$'000***	***US$'000***
Bank balances	**245,958**	**(245,958)**	**–**
Bank borrowings	**245,958**	**(245,958)**	**–**

	As at 31 December 2013		
Financial assets/liabilities subject to offsetting	Gross amount of recognised financial assets/liabilities	Gross amounts of recognised financial liabilities/ assets set off in the statement of financial position	Net amounts of financial assets/ liabilities presented in the statement of financial position
	US$'000	*US$'000*	*US$'000*
Bank balances	44,995	(44,995)	–
Bank borrowings	44,995	(44,995)	–

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, subsidiaries and associates of Hon Hai other than members of the Group:

	Six months ended	
	30.6.2014	30.6.2013
	US$'000	*US$'000*
	(unaudited)	(unaudited)
Hon Hai:		
Sales of goods	**3**	136
Purchase of goods	**92,309**	18,179
Purchase of property, plant and equipment	**7,229**	25
Sales of property, plant and equipment	**67**	29
Lease expense – real properties	**322**	2
Subcontracting income	**19,052**	12,673
Consolidated services and subcontracting expense	**205**	2,137
General services income	**126**	94
General services expense	**367**	100
Subsidiaries of Hon Hai:		
Sales of goods	**110,957**	31,099
Purchase of goods	**103,517**	45,770
Purchase of property, plant and equipment	**30,610**	9,544
Sales of property, plant and equipment	**8,442**	9,294
Lease income	**951**	354
Lease expense – real properties	**759**	586
Subcontracting income	**44,562**	52,048
Consolidated services and subcontracting expense	**26,539**	13,333
General services income	**982**	296
General services expense	**8,614**	5,355
Associates of Hon Hai:		
Sales of goods	**1,269**	1,373
Purchase of goods	**142,311**	48,602
Purchase of property, plant and equipment	**287**	2,110
Sales of property, plant and equipment	**229**	535
Lease income	**15**	14
Lease expense – real properties	**13**	38
Subcontracting income	**140**	200
Consolidated services and subcontracting expense	**1,975**	2,654
General services income	**–**	41
General services expense	**33**	65

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:

	30.6.2014	31.12.2013
	US$'000	*US$'000*
	(unaudited)	(audited)
Trade receivables:		
Hon Hai	**9,252**	9,538
Subsidiaries of Hon Hai	**175,583**	123,746
Associates of Hon Hai	**2,482**	3,179
	187,317	136,463
Other receivables:		
Hon Hai	**155**	176
Subsidiaries of Hon Hai	**2,727**	284
Associates of Hon Hai	**172**	58
	3,054	518
	190,371	136,981
Trade payables:		
Hon Hai	**26,283**	30,353
Subsidiaries of Hon Hai	**143,954**	81,834
Associates of Hon Hai	**108,771**	52,911
	279,008	165,098
Other payables:		
Hon Hai	**116**	1,873
Subsidiaries of Hon Hai	**1,309**	5,191
Associates of Hon Hai	**98**	13
	1,523	7,077
	280,531	172,175

Balances due from/to related parties are unsecured and interest free.

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	
	30.6.2014	30.6.2013
	US$'000	*US$'000*
	(unaudited)	(unaudited)
Short-term benefits	**486**	462
Share-based payments	**1**	97
	487	559

23. APPROVAL

The condensed consolidated financial statements on pages 4 to 33 were approved and authorised for issue by the board of directors of the Company on 12 August 2014.

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 cent.

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.

Review of Results and Operations *(Continued)*

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.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Liquidity and Financial Resources *(Continued)*

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.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

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.

Outlook *(Continued)*

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.

OTHER INFORMATION

DIRECTORS

Mr. TONG Wen-hsin, the Chairman and an executive director of the Company, resigned as a director of Success World Holdings Limited, being a subsidiary of the Company, with effect from 30 June 2014.

Mr. LAU Siu Ki, an independent non-executive director of the Company, was appointed as an independent supervisor of Beijing Capital International Airport Co., Ltd., whose shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), with effect from 30 June 2014.

Pursuant to the approval of the Company's officers/delegates (as duly authorised by the board of directors of the Company (the "Board")) on 8 May 2014, the Company granted 1,016,263 shares, 2,540,657 shares and 677,509 shares to Messrs. TONG Wen-hsin and CHIH Yu Yang and Dr. LEE Jer Sheng respectively under the New Share Scheme.

Pursuant to the approval of the Board on 12 August 2014, the appointment of Mr. CHEN Fung Ming, an independent non-executive director of the Company, was renewed for a term of three years ending on 31 October 2017 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$2,580) per month (less any necessary statutory deductions).

DISCLOSURE OF INTERESTS

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

As at 30 June 2014, 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 (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	3,158,568	0.0408%
	Hon Hai	Personal Interest	58,604	0.0004%
CHIH Yu Yang *(Note 2)*	Company	Personal Interest	8,724,053	0.1128%
	Hon Hai	Personal Interest	31,017	0.0002%
	Chiun Mai Communication Systems, Inc. *(Note 3)*	Personal Interest	1,000	0.0007%
LEE Jer Sheng *(Note 4)*	Company	Personal Interest	3,682,485	0.0476%
		Jointly-held Interest	100,000	0.0013%
LEE Kuo Yu	Hon Hai	Personal Interest	251,847	0.0019%

Notes:

1. 3,158,568 shares include 2,142,326 shares which are issuable upon exercise of share options granted under the Former Option Scheme and upon vesting of the share grants granted under the New Share Scheme.

2. 8,724,053 shares include 2,540,657 shares which are issuable upon vesting of the share grants granted under the New Share Scheme.

3. The Company indirectly, through its wholly-owned subsidiaries, holds approximately 86.17% of the entire issued share capital of Chiun Mai Communication Systems, Inc., a company incorporated in Taiwan.

4. 3,682,485 shares include 2,771,509 shares which are issuable upon exercise of share options granted under the Former Option Scheme and upon vesting of the share grants granted under the Former Share Scheme and the New Share Scheme. 100,000 shares are beneficially and jointly owned by Dr. LEE Jer Sheng and Ms. TING Kuei Feng, the spouse of Dr. LEE Jer Sheng. Accordingly, Dr. LEE Jer Sheng is deemed to be interested in 100,000 shares which are jointly held by him and his spouse for the purposes of the SFO.

Save as disclosed above, none of the directors or chief executive of the Company had, as at 30 June 2014, 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.

OTHER INFORMATION *(Continued)*

DISCLOSURE OF INTERESTS *(Continued)*

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 2014, 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	65.71%
Hon Hai *(Note)*	Interest of a controlled corporation	5,081,034,525	65.71%

Note: 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.

Save as disclosed above, as at 30 June 2014, 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.

OTHER INFORMATION *(Continued)*

SHARE OPTION SCHEMES

Movements of the share options granted under the Former Option Scheme during the six months ended 30 June 2014 were as follows:

Category of grantee	Outstanding at the beginning of the period	Date of grant during the period	Granted during the period	Vesting period	Exercise price	Exercised during the period	Lapsed/ Expired during the period	Cancelled during the period	Outstanding at the end of the period
Directors									
TONG Wen-hsin	1,126,063	–	–	each year on 1 January from 2012 to 2014	HK$3.62	–	–	–	1,126,063
LEE Jer Sheng	1,701,553	–	–	each year on 1 January from 2012 to 2014	HK$3.62	–	–	–	1,701,553
Employees	154,842,475	–	–	each year on 1 January from 2012 to 2014	HK$3.62	(30,680,472)	(648,713)	–	123,513,290
	157,670,091		–			(30,680,472)	(648,713)	–	126,340,906

During the six months ended 30 June 2014, no option was granted under the New Option Scheme.

Apart from the Former Option Scheme, the Former Share Scheme, the New Option Scheme and the New Share Scheme, at no time during the six months ended 30 June 2014 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 2014.

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.

OTHER INFORMATION *(Continued)*

RESERVES

Movements in reserves of the Group during the six months ended 30 June 2014 are set out on page 9.

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 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 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.

On behalf of the Board
Tong Wen-hsin
Chairman

Hong Kong, 12 August 2014