



FIH[®] 富智康[™]

FIH Mobile Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2038

2017
INTERIM REPORT

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CORPORATE INFORMATION

FIH MOBILE LIMITED

(the “Company”, and together with its subsidiaries, the “Group”)

EXECUTIVE DIRECTORS

CHIH Yu Yang (*Acting Chairman and Chief Executive Officer*)

WANG Chien Ho

HUANG Chin Hsien

NON-EXECUTIVE DIRECTOR

LUO Zhongsheng (*Note*)

INDEPENDENT NON-EXECUTIVE DIRECTORS

LAU Siu Ki

Daniel Joseph MEHAN

TAO Yun Chih

COMPANY SECRETARY

WONG Kin Yan, Vanessa

REGISTERED OFFICE

P. O. Box 31119 Grand Pavilion

Hibiscus Way

802 West Bay Road

Grand Cayman, KY1-1205

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

LEGAL ADVISORS

Clifford Chance, Hong Kong

Freshfields Bruckhaus Deringer,

Hong Kong

Latham & Watkins, Hong Kong

Mayer Brown JSM, Hong Kong

AUDITORS

Deloitte Touche Tohmatsu

PRINCIPAL BANKERS

Agricultural Bank of China

Bank of Beijing

Bank of China

Bank of Communications

China Guangfa Bank

China Merchants Bank

Chinatrust Commercial Bank

Citibank

DBS Bank

Deutsche Bank

Industrial Bank

ING Bank

Mizuho Corporate Bank

OCBC Bank

Santander Bank

Standard Chartered Bank

Taipei Fubon Bank

The Hongkong and Shanghai Banking

Corporation Limited

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

SMP Partners (Cayman) Limited

Royal Bank House — 3rd Floor

24 Shedden Road, P.O. Box 1586

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

Note: Dr. LUO Zhongsheng has been re-designated from an executive director to a non-executive director of the Company with effect from 1 September 2017.

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Deloitte.

德勤

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 36, which comprise the condensed consolidated statement of financial position as of 30 June 2017 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 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”) issued by the International Accounting Standards Board. 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 2017



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CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2017

	NOTES	Six months ended	
		30.6.2017 US\$'000 (unaudited)	30.6.2016 US\$'000 (unaudited)
Revenue	3	4,374,104	2,306,561
Cost of sales		(4,260,576)	(2,172,450)
Gross profit		113,528	134,111
Other income, gains and losses		119,733	72,775
Impairment loss recognised for available-for-sale investments	10	(162,499)	–
Selling expenses		(17,522)	(9,548)
General and administrative expenses		(155,093)	(87,995)
Research and development expenses		(72,265)	(59,258)
Interest expense on bank borrowings		(5,472)	(13)
Share of (loss) profit of associates		(2,301)	792
Share of loss of joint ventures		(640)	(425)
(Loss) profit before tax		(182,531)	50,439
Income tax expense	4	(16,545)	(29,616)
(Loss) profit for the period	5	(199,076)	20,823
Other comprehensive income (expense):			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising on translation of foreign operations		97,763	(57,858)
Fair value gain (loss) on available-for-sale financial assets		1,102	(342)
Share of translation reserve of associates		1,759	(16)
Share of translation reserve of joint ventures		200	73
Other comprehensive income (expense) for the period		100,824	(58,143)
Total comprehensive expense for the period		(98,252)	(37,320)

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

FOR THE SIX MONTHS ENDED 30 JUNE 2017

		Six months ended	
	<i>NOTE</i>	30.6.2017	30.6.2016
		US\$'000	US\$'000
		(unaudited)	(unaudited)
(Loss) profit for the period attributable to:			
Owners of the Company		(196,556)	21,444
Non-controlling interests		(2,520)	(621)
		(199,076)	20,823
Total comprehensive expense attributable to:			
Owners of the Company		(96,099)	(36,647)
Non-controlling interests		(2,153)	(673)
		(98,252)	(37,320)
(Loss) earnings per share			
Basic	7	(US2.5 cents)	US0.28 cent
Diluted		N/A	US0.27 cent

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2017

	NOTES	30.6.2017 US\$'000 (unaudited)	31.12.2016 US\$'000 (audited and restated)
Non-current assets			
Property, plant and equipment	8	894,563	905,071
Investment properties		6,367	6,273
Prepaid lease payments		50,986	50,172
Goodwill	9	79,435	79,435
Intangible assets		15,096	19,000
Available-for-sale investments	10	201,104	354,181
Interests in associates		99,210	72,379
Interests in joint ventures		3,106	3,546
Deferred tax assets	11	40,469	32,426
Deposit for acquisition of prepaid lease payments		28,147	27,499
Convertible notes	12	60,000	60,000
		1,478,483	1,609,982
Current assets			
Inventories		894,354	375,336
Trade and other receivables	13	2,426,506	2,495,148
Short-term investments		580,176	929,627
Convertible notes	12	–	20,940
Bank deposits		146,340	158,075
Bank balances and cash		1,780,752	1,373,550
		5,828,128	5,352,676
Current liabilities			
Trade and other payables	14	3,431,369	2,769,912
Bank borrowings	15	346,497	418,596
Provision	16	32,133	21,172
Tax payable		122,865	154,565
		3,932,864	3,364,245
Net current assets		1,895,264	1,988,431
Total assets less current liabilities		3,373,747	3,598,413

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

AT 30 JUNE 2017

	NOTES	30.6.2017 US\$'000 (unaudited)	31.12.2016 US\$'000 (audited and restated)
Capital and reserves			
Share capital	17	319,410	319,410
Reserves		3,023,249	3,245,223
Equity attributable to owners of the Company		3,342,659	3,564,633
Non-controlling interests		3,970	6,123
Total equity		3,346,629	3,570,756
Non-current liabilities			
Deferred tax liabilities	11	3,515	3,790
Deferred income	18	23,603	23,867
		27,118	27,657
		3,373,747	3,598,413

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2017

	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 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
Balance at 1 January 2017 (audited)	319,410	1,166,951	15,514	47,433	(1,198)	168,670	(2,952)	(21,537)	1,872,342	3,564,633	6,123	3,570,756
Other comprehensive income for the period	-	-	-	1,102	-	-	99,355	-	-	100,457	367	100,824
Loss for the period	-	-	-	-	-	-	-	-	(196,556)	(196,556)	(2,520)	(199,076)
Total comprehensive income (expense) for the period	-	-	-	1,102	-	-	99,355	-	(196,556)	(96,099)	(2,153)	(86,252)
Recognition of equity-settled share-based payments	-	-	-	-	-	-	-	16,125	-	16,125	-	16,125
Dividends recognised as distribution (note 6)	-	-	-	-	-	-	-	-	(142,000)	(142,000)	-	(142,000)
Balance at 30 June 2017 (unaudited)	319,410	1,166,951	15,514	48,535	(1,198)	168,670	96,403	(5,412)	1,533,786	3,342,659	3,970	3,346,629

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2017

	Six months ended	
	30.6.2017	30.6.2016
	US\$'000	US\$'000
	(unaudited)	(unaudited)
Net cash from operating activities	257,461	266,532
Investing activities		
Purchase of short-term investments	(1,860,589)	(2,762,618)
Purchase of property, plant and equipment	(75,538)	(51,026)
Purchase of available-for-sale investments	(3,998)	(7,225)
Capital injection in an associate	(1,341)	–
Purchase of equity interest in a subsidiary	(189)	–
Capital contribution to a joint venture	–	(773)
Proceeds from disposal of property, plant and equipment	5,922	3,115
Withdrawal of bank deposits for investing purpose	13,992	117,071
Proceeds on settlements of short-term investments	2,237,175	2,255,543
Net cash from (used in) investing activities	315,434	(445,913)
Financing activities		
Bank borrowings repaid	(516,255)	(13,474)
Dividends paid	(142,000)	(218,599)
Bank borrowings raised	443,202	22,227
Net cash used in financing activities	(215,053)	(209,846)
Net increase (decrease) in cash and cash equivalents	357,842	(389,227)
Cash and cash equivalents at 1 January	1,373,550	1,950,306
Effect of foreign exchange rate changes	49,360	(37,975)
Cash and cash equivalents as at 30 June, representing bank balances and cash	1,780,752	1,523,104

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2017

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.

Excepted as 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 2017 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2016.

Significant event in the current interim period

Impairment loss of unlisted equity investments in relation to Jasper Infotech Private Limited (“JIP”)

In May 2017, the Group identified an impairment indicator from a recent proposed acquisition of JIP in the market, from which the estimated value of JIP is significantly below its carrying value. In determining the impairment loss of unlisted equity investments in relation to JIP, the amount of impairment for JIP requires an estimation of the recoverable amounts for which the Group management performed an estimation of the value of shares of JIP, which makes reference to the enterprise value of the recent proposed acquisition of JIP in the market. After making such assessment, an impairment loss of US\$160,000,000 was recognised for the six months ended 30 June 2017.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2017

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Application of amendments to International Financial Reporting Standards (“IFRSs”)

In the current interim period, the Group has applied, for the first time, the following amendments to IFRSs issued by the IASB that are relevant for the preparation of the Group’s condensed consolidated financial statements:

Amendments to IAS 7	Disclosure initiative
Amendments to IAS 12	Recognition of deferred tax assets for unrealised losses
Annual improvements to IFRSs 2014–2016 cycle	Amendments to IFRS 12 “Disclosure of interests in other entities: Clarification of the scope of disclosure requirement in IFRS 12”

The application of these 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, but additional disclosures about changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes on application of amendments to IAS 7 will be provided in the consolidated financial statements for the year ending 31 December 2017.

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.

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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2017

3. SEGMENT INFORMATION (Continued)

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

	Six months ended	
	30.6.2017	30.6.2016
	US\$'000	US\$'000
	(unaudited)	(unaudited)
Segment revenue (external sales)		
Asia	3,850,136	2,019,693
Europe	471,176	96,392
America	52,792	190,476
	<hr/>	<hr/>
Total	4,374,104	2,306,561
	<hr/>	<hr/>
Segment profit		
Asia	99,211	140,283
Europe	4,861	493
America	3,926	6,321
	<hr/>	<hr/>
	107,998	147,097
Unallocated other income, gains and losses	107,741	50,241
Impairment loss recognised for available-for-sale investments	(162,499)	–
General and administrative expenses	(155,093)	(87,995)
Research and development expenses	(72,265)	(59,258)
Interest expense on bank borrowings	(5,472)	(13)
Share of (loss) profit of associates	(2,301)	792
Share of loss of joint ventures	(640)	(425)
	<hr/>	<hr/>
(Loss) profit before tax	(182,531)	50,439
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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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2017

4. INCOME TAX EXPENSE

The charge comprises:

	Six months ended	
	30.6.2017	30.6.2016
	US\$'000	US\$'000
	(unaudited)	(unaudited)
Current tax:		
– Hong Kong	–	–
– Other jurisdictions	29,318	22,514
– Withholding tax for distributed profit of investments in the PRC	–	2,938
	29,318	25,452
(Over)underprovision in prior periods:		
– Hong Kong	–	–
– Other jurisdictions	(6,110)	199
	(6,110)	199
Deferred tax (note 11)		
Current period	(6,663)	3,965
	16,545	29,616

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% (2016: 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% for a period of 3 years, i.e. from 2015 to 2018 and from 2016 to 2018, respectively. Except these two subsidiaries, other PRC subsidiaries are subject to Enterprise Income Tax at 25% (2016: 25%).

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2017

5. (LOSS) PROFIT FOR THE PERIOD

	Six months ended	
	30.6.2017	30.6.2016
	US\$'000	US\$'000
	(unaudited)	(unaudited)
(Loss) profit for the period has been arrived at after charging (crediting):		
Amortisation of intangible assets	3,904	–
Amortisation of prepaid lease payments (included in general and administrative expenses)	493	503
Depreciation of property, plant and equipment	77,755	68,988
Depreciation of investment properties	305	340
	<hr/>	<hr/>
Total depreciation and amortisation	82,457	69,831
	<hr/>	<hr/>
Cost of inventories recognised as expense	4,188,270	2,144,481
Loss on disposal of and write-off of property, plant and equipment	22,425	4,385
Provision for warranty	13,916	6,886
Write down of inventories to net realisable value	58,390	21,083
Impairment loss (reversed) recognised in respect of trade receivables	(6)	23
Gain from changes in fair value of financial assets designated as at fair value through profit or loss ("FVTPL")	(9,996)	(12,327)
Interest income from bank deposits	(18,822)	(16,509)
	<hr/>	<hr/>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2017

6. DIVIDENDS

	Six months ended	
	30.6.2017	30.6.2016
	US\$'000	US\$'000
	(unaudited)	(unaudited)
Dividends recognised as distribution during the period		
2016 final — US\$0.00526 (2016: US\$0.00869) per share	42,000	68,599
Special — US\$0.01252 (2016: US\$0.019) per share	100,000	150,000
	142,000	218,599

No dividend was declared or proposed for the six months ended 30 June 2017 (for the six months ended 30 June 2016: nil). The directors do not recommend the payment of an interim dividend.

7. (LOSS) EARNINGS PER SHARE

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

	Six months ended	
	30.6.2017	30.6.2016
	US\$'000	US\$'000
	(unaudited)	(unaudited)
(Loss) earnings attributable to the owners of the Company		
(Loss) earnings for the purposes of basic (2016: basic and diluted) (loss) earnings per share	(196,556)	21,444

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2017

7. (LOSS) EARNINGS PER SHARE (Continued)

	Six months ended	
	30.6.2017	30.6.2016
Number of shares		
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	<u>7,924,810,443</u>	7,788,717,472
Effect of dilutive potential ordinary shares relating to outstanding share awards issued by the Company		<u>104,985,680</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share		<u>7,893,703,152</u>

The computation of diluted loss per share for the period ended 30 June 2017 did not assume the exercise of the Company's share awards as the assumed exercise of the outstanding share awards would result in a decrease in the loss per share.

8. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the current period, the Group acquired property, plant and equipment of approximately US\$75,538,000 (for the six months ended 30 June 2016: US\$51,026,000).

In addition, the Group disposed of and wrote off certain property, plant and equipment with an aggregate carrying amount of US\$28,347,000 (for the six months ended 30 June 2016: US\$7,500,000) for proceeds of US\$5,922,000 (for the six months ended 30 June 2016: US\$3,115,000), resulting in a loss on disposal and write-off of US\$22,425,000 (for the six months ended 30 June 2016: US\$4,385,000) which mainly represented one-off write-off of idle computer equipment.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2017

9. ACQUISITION OF CERTAIN ASSETS OF FEATURE PHONE BUSINESS AND COLLABORATION RELATING TO NOKIA-BRANDED PRODUCTS

As set out in the announcements of the Company on 18 May 2016 and 1 December 2016 relating to “Disclosable transaction in respect of acquisition of certain assets of feature phone business” and “Amendment to disclosable transaction in respect of acquisition of certain assets of feature phone business” respectively, the Group acquired certain production capacity of mobile phones (the “Acquisition”). The primary reason for the Acquisition is to leverage the Group’s existing industry expertise, facilities, personnel and manufacturing capabilities to maximise synergies with respect to the Acquisition thereby enhancing the Group’s overall commercial capabilities (in terms of design, manufacturing, logistics and distribution) as well as businesses with more customers through the development of more global fulfillment services, new markets and new products. The closing date of the Acquisition was 30 November 2016, which had been adopted as the acquisition date.

On 18 May 2016, the Company and TNS Limited, an indirect wholly-owned subsidiary of the Company incorporated in the British Virgin Islands (“TNS”) entered into a collaboration agreement with Nokia Technologies Ltd., a limited liability company incorporated in Finland (“Nokia Technologies”), and HMD global Oy, a limited liability company incorporated in Finland (“HMD”) to establish a collaboration framework among the parties with a view to building a globally successful business in the field of Nokia-branded mobile phones and tablets based on (i) the “Nokia” brand and certain of Nokia Technologies’ intellectual property; (ii) the Company’s and TNS’ technologies, manufacturing, supply chain, and research and development activities; and (iii) the commercial capabilities in the field of mobile device business to be acquired by HMD and TNS for distribution of Nokia-branded mobile phones and tablets (the “Collaboration”, and together with the Acquisition, collectively as the “Acquisition and Collaboration Transactions”). Pursuant to the Collaboration, among other things, TNS has worked exclusively with HMD for distribution of the Nokia-branded mobile phones and tablets and entered into agreements with HMD for the manufacturing, research, development and technology cooperation, and distribution in respect of the Nokia-branded mobile phones and tablets. The primary reason for the Collaboration is for the Group to develop business with HMD covering primarily mobile phones and tablets thereby generating more revenue as well as enhancing the utilisation of its assets, capacities and capabilities in its handset manufacturing business and fulfillment services for the benefit of the Company and its shareholders as a whole.

The management of the Group is of the view that the assets from the Acquisition together with the arrangement under the Collaboration are measured as a cash-generating unit. The Acquisition and Collaboration Transactions have been accounted for using the acquisition method.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2017

9. ACQUISITION OF CERTAIN ASSETS OF FEATURE PHONE BUSINESS AND COLLABORATION RELATING TO NOKIA-BRANDED PRODUCTS

(Continued)

On 31 March 2017, the cash consideration was finalised at US\$258,648,000. The goodwill arose from the Acquisition and Collaboration Transactions included amounts in relation to the benefit of expected synergies, revenue growth, future market development and new products introduction. Both of the goodwill and intangible assets arising on the Acquisition and Collaboration Transactions are expected to be deductible for tax purposes. During the six months ended 30 June 2017, to reflect the new information obtained by the Group about the tax deductibility of the intangible assets identified, the goodwill previously recognised was subsequently reduced by reversal of deferred tax liabilities of US\$3,800,000. The comparative figures of the Group's consolidated statement of financial position at 31 December 2016 has been restated as if the initial accounting had been completed from the acquisition date.

Details of consideration are as follows:

	<i>US\$'000</i>
Consideration satisfied by cash	<u>258,648</u>

Assets acquired and liabilities assumed recognised at the date of acquisition were determined as follows:

	<i>US\$'000</i> (restated)
Property, plant and equipment	167,759
Intangible assets	19,000
Prepaid lease payments	11,747
Inventories	23,509
Trade and other receivables	15,475
Bank balances and cash	88,462
Trade and other payables	(10,404)
Intercompany debt payable to sellers	(132,917)
Deferred tax liabilities	<u>(3,418)</u>
	<u>179,213</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2017

9. ACQUISITION OF CERTAIN ASSETS OF FEATURE PHONE BUSINESS AND COLLABORATION RELATING TO NOKIA-BRANDED PRODUCTS (Continued)

Goodwill arising on the Acquisition and Collaboration Transactions:

	US\$'000 (restated)
Consideration transferred	258,648
Less: Fair values of identifiable net assets acquired	<u>(179,213)</u>
Goodwill arising on acquisition	<u>79,435</u>
Net cash outflow on acquisition:	
Cash and cash equivalent balances acquired	88,462
Less: Cash considerations paid	(258,648)
Repayment of intercompany debt	<u>(132,917)</u>
	<u>(303,103)</u>

10. AVAILABLE-FOR-SALE INVESTMENTS

	30.6.2017 US\$'000 (unaudited)	31.12.2016 US\$'000 (audited)
Listed equity investments:		
Equity investment listed in Hong Kong	72,013	71,510
Equity investment listed in Taiwan	6,113	5,967
	78,126	77,477
Unlisted equity investments (<i>note a</i>)	115,411	269,590
Investment in a private fund (<i>note b</i>)	7,567	7,114
	201,104	354,181

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2017

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

Notes:

- (a) The unlisted equity investments represented investments issued by certain private entities, majority of which are incorporated or operated in the PRC, India and Taiwan. 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.

At 30 June 2017, included in the unlisted equity investments, there is an investment in JIP, a private limited company incorporated in India, with a carrying amount of US\$40,004,000 (31.12.2016: US\$200,004,000). JIP is engaged in owning and operating the online shopping website namely www.snapdeal.com.

During the six months ended 30 June 2017, an impairment loss of US\$160,000,000 (for the six months ended 30 June 2016: nil) was recognised for the investment in JIP. The impairment loss was measured by comparing its carrying amount to its recoverable amount. The management of the Group performed an estimation of the value of shares of JIP, which makes reference to the enterprise value of a recent proposed acquisition of JIP in the market, the valuation of which is classified as level 2 under IFRS 13 "Fair value measurement". An impairment loss of US\$2,499,000 was recognised for other equity investments as the directors of the Company considered that no future cash flow would be generated from such investments which are of no market value.

- (b) The amount represented 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2017

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 <i>US\$'000</i>	Warranty provision <i>US\$'000</i>	Accelerated tax depreciation <i>US\$'000</i>	Tax losses <i>US\$'000</i>	Deferred income <i>US\$'000</i>	Others <i>US\$'000</i> <i>(Note)</i>	Total <i>US\$'000</i>
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)
At 1 January 2017 (audited and restated)	(7,131)	(4,202)	7,100	(1,037)	(5,004)	(18,362)	(28,636)
(Credit) charge to profit or loss for the period	(4,480)	767	3,593	(2,776)	181	(3,948)	(6,663)
Exchange adjustments	(275)	(100)	567	(313)	(116)	(1,418)	(1,655)
At 30 June 2017	(11,886)	(3,535)	11,260	(4,126)	(4,939)	(23,728)	(36,954)

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2017

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 (after offset) for financial reporting purposes:

	30.6.2017	31.12.2016
	US\$'000	US\$'000
		(audited and restated)
	(unaudited)	restated)
Deferred tax assets	(40,469)	(32,426)
Deferred tax liabilities	3,515	3,790
	(36,954)	(28,636)

At 30 June 2017, 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\$128,068,000 (31.12.2016: US\$98,305,000) as it is not probable that taxable profit will be available against which the deductible temporary difference can be utilised.

At 30 June 2017, the Group has unused tax losses of approximately US\$830,107,000 (31.12.2016: US\$795,936,000) available for offset against future profits. A deferred tax asset had been recognised in respect of approximately US\$13,754,000 (31.12.2016: US\$4,149,000) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses of approximately US\$816,353,000 (31.12.2016: US\$791,787,000) 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 2021.

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\$1,335,058,000 (31.12.2016: US\$1,272,829,000) 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2017

12. CONVERTIBLE NOTES

During the year ended 31 December 2016, the Group invested in several unlisted convertible notes with principal amount of US\$10,000,000, in total bearing interest at 8% per annum with a maturity date of 30 June 2017, which were issued by Mango International Group Limited ("Mango International") (the "CN I"). Mango International is a private company which is incorporated in the British Virgin Islands and is principally engaged in the design and development of online mobile devices and the provision of mobile devices to hotels, hospitality solutions and advertising services via media platform. At 31 December 2016, the carrying amount of the CN I was US\$20,940,000. On 30 June 2017, the Group converted the entire CN I into ordinary shares of Mango International at fair value and resulted in an increase in equity interests in Mango International, which is an associate of the Group, from 12.5% as at 31 December 2016 to 15.69% as at 30 June 2017, which was a major non-cash transaction for the six months ended 30 June 2017.

During the year ended 31 December 2016, the Group also invested in an unlisted convertible notes with principal amount of US\$60,000,000, non-interest bearing with a maturity date of 14 April 2018 (the "Maturity Date"), issued by Mango International (the "CN II"). In exchange for the CN II, the Group shall deliver inventories with an aggregate value of US\$60,000,000 to Mango International upon request by Mango International. The Group and Mango International are entitled at any time after the date of issue up to the Maturity Date to request to convert in whole or in part the outstanding principal amount of the CN II into ordinary shares of Mango International, provided that such conversion(s) shall not be effected unless Mango International or the Group gives prior written consent. To the extent there is any principal amount of the CN II remains outstanding at the Maturity Date, all of outstanding principal amount of the CN II shall be automatically converted into ordinary shares of Mango International.

CN II comprised embedded derivatives being the conversion option and designated as financial assets at fair value through profit or loss by the directors of the Company.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2017

13. TRADE AND OTHER RECEIVABLES

	30.6.2017 <i>US\$'000</i> (unaudited)	31.12.2016 <i>US\$'000</i> (audited)
Trade receivables	2,207,311	2,227,704
Less: Allowance for doubtful debts	(748)	(737)
	2,206,563	2,226,967
Other taxes recoverables	54,490	91,576
Other receivables, deposits and prepayments	165,453	176,605
Total trade and other receivables	2,426,506	2,495,148

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:

	30.6.2017 <i>US\$'000</i> (unaudited)	31.12.2016 <i>US\$'000</i> (audited)
0–90 days	2,148,010	2,208,489
91–180 days	51,525	11,905
181–360 days	4,872	2,876
Over 360 days	2,156	3,697
	2,206,563	2,226,967

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2017

14. TRADE AND OTHER PAYABLES

	30.6.2017	31.12.2016
	US\$'000	US\$'000
	(unaudited)	(audited)
Trade payables	2,680,545	2,102,671
Accruals and other payables	715,133	607,241
Deferred consideration (<i>note</i>)	35,691	60,000
	3,431,369	2,769,912

Note: The amount represented the aggregate value of the inventories to be delivered by the Group to Mango International in the consideration for CN II, details of which are set out in note 12. In the current interim period, the Group delivered inventory with an aggregate value of US\$24,309,000 to Mango International, which is a major non-cash transaction.

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

	30.6.2017	31.12.2016
	US\$'000	US\$'000
	(unaudited)	(audited)
0–90 days	2,636,280	2,046,576
91–180 days	8,799	37,968
181–360 days	22,197	6,749
Over 360 days	13,269	11,378
	2,680,545	2,102,671

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2017

15. BANK BORROWINGS

	30.6.2017	31.12.2016
	US\$'000	US\$'000
	(unaudited)	(audited)
Bank loans	346,497	418,596

Analysis of bank borrowings by currency:

Renminbi	–	24,081
Japanese Yen	–	6,015
US\$	346,497	388,500
	346,497	418,596

The bank borrowings as at the end of the reporting period are unsecured, with original maturity of one to three months (31.12.2016: one to six months), repayable within one year and carry interest at fixed interest rates ranging from 1.44% to 1.88% (31.12.2016: 0.45% to 8%) per annum.

16. PROVISION

	Warranty provision
	US\$'000
At 1 January 2016	19,093
Exchange adjustments	(1,194)
Provision for the year	16,159
Utilisation of provision	(12,886)
At 31 December 2016	21,172
Exchange adjustments	423
Provision for the period	13,916
Utilisation of provision	(3,378)
At 30 June 2017	32,133

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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2017

17. SHARE CAPITAL

	Number of shares	Amount US\$'000
Ordinary shares of US\$0.04 each, authorised:		
Balance at 1 January 2016, 31 December 2016 and 30 June 2017	20,000,000,000	800,000
Ordinary shares of US\$0.04 each, issued and fully paid:		
Balance at 1 January 2016	7,893,703,152	315,748
Issue pursuant to the share scheme (note 20(b))	91,551,539	3,662
Balance at 31 December 2016 and 30 June 2017	7,985,254,691	319,410

18. DEFERRED INCOME

	30.6.2017 US\$'000 (unaudited)	31.12.2016 US\$'000 (audited)
Government subsidies	23,603	23,867

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

	30.6.2017 US\$'000 (unaudited)	31.12.2016 US\$'000 (audited)
Commitments for the acquisition of property, plant and equipment contracted but not provided for	5,841	8,443

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2017

20. SHARE-BASED PAYMENT TRANSACTIONS

(a) Equity-settled share option scheme

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 share option scheme (the "Option Scheme") on 26 November 2013, which will expire on 25 November 2023, unless otherwise terminated in accordance with its terms.

Currently, no options have been granted under the Option Scheme. No share option is exercisable as at 30 June 2017 and 31 December 2016.

No expense in relation to the share options granted by the Company was recognised by the Group for the six months ended 30 June 2017 and 30 June 2016.

(b) Other share-based payment plan

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 "Share Scheme") on 26 November 2013, pursuant to which 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.

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 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 Share Scheme from the stock market in August 2015.

Pursuant to the approval of the Company's officers/delegates (as duly authorised by the board of directors of the Company) on 1 November 2016, the Company offered 101,168,760 ordinary shares to certain beneficiaries pursuant to the Share Scheme with lock-up periods, that is, the vesting periods within one year from the grant date. No consideration was payable on the grant of the shares. 91,551,539 ordinary shares were issued on 1 November 2016 and 9,617,221 ordinary shares were purchased by the trustee of the Share Scheme from the stock market in November 2016.

The Group recognised total expense of US\$16,125,000 (for the six months ended 30 June 2016: US\$29,851,000) for the current period in relation to the shares granted under the Share Scheme.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2017

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).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2017

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		Fair value hierarchy	Valuation technique(s) and key inputs	Significant unobservable input(s)	Sensitivity/ relationship of unobservable inputs to fair value
	30.6.2017 US\$'000	31.12.2016 US\$'000				
Listed equity investments classified as available-for-sale investments in the condensed consolidated financial statements	Listed equity investments – 78,126	Listed equity investments – 77,477	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	Nil	Liabilities – 4,554	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 – 7,567	Investment in a private fund domiciled in the Cayman Islands – 7,114	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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2017

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		Fair value hierarchy	Valuation technique(s) and key inputs	Significant unobservable input(s)	Sensitivity/ relationship of unobservable inputs to fair value
	30.6.2017 US\$'000	31.12.2016 US\$'000				
Investment in interest bearing instruments classified as short-term investments designated as financial assets at FVTPL in the condensed consolidated financial statements	Investment in interest bearing instruments – 580,176	Investment in interest bearing instruments – 929,627	Level 3	Income approach – discounted cash flow method was used to capture the present value of the expected return, 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 3.80% to 5.00% (31.12.2016: 2.85% to 4.00%) per annum	The higher the expected guaranteed interest rate, the higher the fair value, and vice versa
CN I (defined in note 12) designated as financial assets at FVTPL in the condensed consolidated financial statements	Convertible notes – Nil	Convertible notes – 20,940	Level 3	Binomial option pricing model. Expected volatility: N/A (2016: 22.59%) Share price: N/A (2016: US\$8.28) Exercise price: N/A (2016: US\$3.92)	Expected volatility of N/A (2016: 22.59%) taking into account the historical volatility of share prices of the public listed companies that are considered to be comparable	An increase in the expected volatility used in isolation would result in an increase in the fair value measurement of the convertible notes
CN II (defined in note 12) designated as financial assets at FVTPL in the condensed consolidated financial statements	Convertible notes – 60,000	Convertible notes – 60,000	Level 2	Fair value derived from market value of the shares of Mango International in recent investment transactions	N/A	N/A

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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2017

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 with bank borrowings at the same banks 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 2017		
	Gross amount 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	1,144,128	(1,144,128)	-
Bank borrowings	(1,144,128)	1,144,128	-
Interest receivables	13,066	(6,551)	6,515
Interest payables	(6,551)	6,551	-

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2017

21. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

(Continued)

Financial assets and financial liabilities subject to offsetting (Continued)

	As at 31 December 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 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	447,424	(447,424)	-
Bank borrowings	(447,424)	447,424	-
Interest receivables	9,514	(4,956)	4,558
Interest payables	(4,956)	4,956	-

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2017

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	
	30.6.2017	30.6.2016
	US\$'000	US\$'000
	(unaudited)	(unaudited)
Hon Hai:		
Sales of goods	–	2
Purchase of goods	33,736	15,967
Purchase of property, plant and equipment	5,400	377
Sales of property, plant and equipment	5	4
Lease expense — real properties	349	348
Sub-contracting income	16,551	16,148
Consolidated services and sub-contracting expense	446	897
General services income	402	301
General services expense	12	–
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Subsidiaries of Hon Hai:		
Sales of goods	206,654	297,605
Purchase of goods	266,857	246,892
Purchase of property, plant and equipment	29,849	25,067
Sales of property, plant and equipment	3,682	1,808
Lease income — real properties	1,774	1,003
Lease income — non-real properties	353	203
Lease expense — real properties	1,174	1,546
Lease expense — non-real properties	2,298	2,275
Sub-contracting income	9,778	19,629
Consolidated services and sub-contracting expense	88,915	99,657
General services income	539	620
General services expense	15,627	5,480
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Associates of Hon Hai:		
Sales of goods	437,832	1,330
Purchase of goods	253,802	43,307
Purchase of property, plant and equipment	1,074	4,062
Sales of property, plant and equipment	609	1
Lease income — real properties	131	–
Lease income — non-real properties	13	15
Lease expense — real properties	6	7
Lease expense — non-real properties	–	11
Sub-contracting income	4,786	2
Consolidated services and sub-contracting expense	7,710	5,627
General services income	756	–
General services expense	8	117
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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2017

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:

	30.6.2017 US\$'000 (unaudited)	31.12.2016 <i>US\$'000</i> (audited)
Trade receivables:		
Hon Hai	9,388	3,304
Subsidiaries of Hon Hai	147,302	300,911
Associates of Hon Hai	96,380	2,060
	253,070	306,275
Other receivables:		
Hon Hai	-	-
Subsidiaries of Hon Hai	3,321	3,633
Associates of Hon Hai	1,277	3,568
	4,598	7,201
	257,668	313,476
Trade payables:		
Hon Hai	2,583	44,672
Subsidiaries of Hon Hai	299,475	686,565
Associates of Hon Hai	157,907	65,712
	459,965	796,949
Other payables:		
Hon Hai	100	85
Subsidiaries of Hon Hai	20,411	15,972
Associates of Hon Hai	965	1,104
	21,476	17,161
	481,441	814,110

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2017

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	
	30.6.2017	30.6.2016
	US\$'000	US\$'000
	(unaudited)	(unaudited)
Short-term benefits	2,212	1,803
Share-based payments	748	–
	2,960	1,803

(d) During the period, the Group entered into the following transactions with associates and a joint venture:

	Six months ended	
	30.6.2017	30.6.2016
	US\$'000	US\$'000
	(unaudited)	(unaudited)
Sales of goods	2,764	3,121
Purchase of goods	98,563	61,873
Other income	7,741	14,188

The amounts due to associates were US\$67,144,000 (31.12.2016: The amounts due to associates and a joint venture were US\$43,690,000), which were included in other payables, as at 30 June 2017.

23. APPROVAL

The condensed consolidated financial statements on pages 4 to 36 were approved and authorised for issue by the board of directors of the Company on 11 August 2017.

BUSINESS REVIEW IMPORTANT

The Group's consolidated interim results for the six-month period ended 30 June 2017 (the "current period") as set out in this interim 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.

This interim report contains forward-looking statements regarding the Company's expectations and outlook of the Group's business operations, opportunities and prospects. Such forward-looking statements do not constitute guarantees of the future performance of the Group and are subject to factors that could cause the Group's actual results to differ (possibly materially) from those expressed in the forward-looking statements. These factors may include, but not limited to, general industry and economic conditions, shifts in customer demands, sales mix changes, technology advancement, and legal/regulatory/government policy changes. The Company undertakes no obligation to update or revise any such forward-looking statements to reflect any subsequent events or circumstances, except as otherwise required by applicable requirements laid down by the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Accordingly, shareholders of the Company and potential investors are advised to exercise caution when dealing in the shares of the Company.

INTRODUCTION

Since its activation in 2003 and the listing of its shares on the Main Board of the Stock Exchange in 2005, the Company has been a subsidiary of Hon Hai Precision Industry Co. Ltd. (a company incorporated in Taiwan whose shares are listed on the Taiwan Stock Exchange Corporation) ("Hon Hai", and together with its subsidiaries and associates (other than the Group), the "Hon Hai Group"), and a leader for the handset industry worldwide as a vertically integrated manufacturing services provider offering a comprehensive range of end-to-end components and manufacturing and engineering services to its customers in respect of handsets and other wireless communication devices and consumer electronic products, which include unique product development and design, casings, components, full-system assembly etc., logistics and distribution, 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

BUSINESS REVIEW *(Continued)*

INTRODUCTION *(Continued)*

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 particular, for the feature phone assets (including a manufacturing facility in Vietnam) being acquired from Microsoft Mobile Oy ("Microsoft") in November 2016 and the collaboration with Nokia Technologies Ltd. ("Nokia") and HMD global Oy ("HMD") in respect of the Nokia-branded mobile phones and tablets in December 2016 (please see the "Investments" section of the Report of the Directors included in the Company's 2016 Annual Report as well as "Sales" below for details), the Group has been developing the Nokia-branded feature phones and smart phones manufacturing and ancillary logistics and distribution businesses involving customers and consumers in different countries. For details, please see "Investments" below. In addition to handsets, the Group has been actively exploring opportunities in other wireless communication devices and consumer electronic products and accessories and related areas, such as wearable devices and speakers.

DISCUSSION AND ANALYSIS

Key Relationships with Customers, Suppliers and Employees

The Group's major customers include top international brands and Chinese brands, and accordingly, the Group has operations, R&D centers and manufacturing facilities spanning Asia-Pacific region (e.g. China, Taiwan, Vietnam 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. Since 2017, with the roll-out of logistics and distribution business ancillary to manufacturing of the Nokia-branded phones, the Group has been distributing feature phones and smart phones to customers and consumers worldwide, particularly through its operations in Vietnam, India and Finland respectively. With customer transition, ongoing customer diversification efforts and further penetration of existing customers, there has continued to be a more healthy change in customer mix. Amongst the Group's five largest customers during the current period which accounted for approximately 81.19% of the Group's total revenue during such period, three of them have long and well established relationships with the Group and individually has been its customer for over five years. For the two remaining major customers, they have been the Group's customers for about one year and half a year respectively. The Group values the mutually beneficial relationships with its customers by providing high quality products and services meeting global standards to them at competitive prices, thereby creating customer delight among passionate people engaged in a world-class manufacturing environment, and continues to prolong and develop closer relationships with them for mutual benefit of the Group and such customers in the long run.

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Key Relationships with Customers, Suppliers and Employees *(Continued)*

The credit period granted to the Group's major customers is 30 to 90 days which is in line with those granted to other customers. The reversal of allowance for doubtful debt made for the current period was US\$0.006 million (when compared to allowance for doubtful debt for the same period in 2016 of US\$0.023 million), which allowance was made for specific exceptional circumstances only. Subsequent settlements of trade receivables from these major customers have been reviewed and are satisfactory requiring no provisions for the current period.

The Group's procurement team deals with over 3,000 suppliers who supply components and other materials necessary for the Group's businesses, with the aim of sourcing materials with competitive prices. Purchases from the Group's five largest suppliers accounted for approximately 48.97% of the Group's total purchases for the current period. For details, please refer to the "Supply Chain Management" section of the Environmental, Social and Governance Report, which forms part of the Company's 2016 Annual Report.

In response to potential risks associated with the Group's reliance on its major customers and major suppliers, the Group has implemented and maintained sound and effective systems of internal control and enterprise risk management to assess and monitor such potential risks. For details, please refer to the "Accountability and Audit" section of the Corporate Governance Report, which forms part of the Company's 2016 Annual Report.

Employees are valuable assets to the Group and the Group has been working diligently in attracting and retaining talents. The Group recognises that its future success will be highly dependent on its continuity to attract and retain qualified employees by offering more equal employment opportunity, 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 product and business lines. The Group prides itself on providing a safe, effective and congenial work environment and it values the health and well-being of its staff. Adequate arrangements, training and guidelines have been implemented to ensure its working environment is healthy and safe. The success of the Group is dependent on 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 built up and will continue expanding large and experienced R&D teams in China and Taiwan as it has foreseen significant opportunities for business growth (like the new business relating to the Nokia-branded products and new customers) 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 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

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Key Relationships with Customers, Suppliers and Employees *(Continued)*

equity investments), the Group has successfully accumulated relevant experience on procurement, value and design engineering and product development, quality management, production management, logistics and distribution competence. As at 30 June 2017, the Group had a total of 104,478 (31.12.2016: 74,652) employees. Total staff costs incurred during the current period amounted to US\$213 million (30.6.2016: US\$181 million), and increase year-on-year was mainly due to the recruitment, development, rewards and retention of talents for the new business relating to the Nokia-branded products (please see “Sales”, “Investments” and “Outlook” below for details). The Group offers a comprehensive remuneration policy which is reviewed by the management on a regular basis. The Company has adopted the Share Scheme and the Option Scheme respectively. The Option Scheme complies with the requirements of Chapter 17 of the Listing Rules. The emoluments payable to the directors of the Company are determined by the board of directors of the Company (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. For details, please refer to the “Human Capital — The Group’s Greatest Asset” section of the Environmental, Social and Governance Report, which forms part of the Company’s 2016 Annual Report.

Review of Results and Operations

Financial Performance

For the current period, the Group recognised a consolidated revenue of US\$4,374 million, representing an increase by US\$2,067 million or 89.6%, when compared to US\$2,307 million for the same period last year. Net loss for the current period was US\$199 million, when compared to a net profit of US\$20.8 million for the same period last year. The Group’s net loss is primarily attributable to various factors, including the following principal factors: (1) costs relating to the new business under a collaboration agreement that the Company announced on 18 May 2016, as more particularly described in the Company’s profit warning announcement dated 3 April 2017; and (2) a net loss arising from the Group’s investment portfolio which amounted to about US\$162.5 million, and in particular, from an accounting perspective, the Group made a provision for an estimated investment impairment of about US\$160 million in respect of the Group’s US\$200 million equity investment in India-based Jasper Infotech Private Limited (commonly known as “snapdeal.com”, and please see “Investments” below for details). For details, please see the Company’s announcements dated 3 April 2017, 19 May 2017 and 30 June 2017 respectively.

Gross profit for the current period was US\$114 million, representing a decrease of US\$21 million from that for the same period last year, mainly as a result of the decrease in gross margin %. Gross margin was 2.6% and was less than 5.8% for the same period last year, mainly because there had been a change in sales mix and there was decrease in casing sales and sales increase in the current period arose from system assembly business of comparatively low gross margin %.

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Review of Results and Operations *(Continued)*

Financial Performance *(Continued)*

On the other hand, other income for the current period was US\$120 million, representing an increase of US\$47 million from that for the same period last year. The increase was mainly due to receipt of incentive income of US\$23 million and increase of moulding income by US\$17 million when compared to moulding income for the same period last year. There was no material year-on-year change in foreign exchange gain which was about US\$11.45 million during the current period.

To remain competitive, the Group has always remained lean and controlled headcount and expenditures and managed to maintain operating expenses. However, the Group has been investing costs into the new business relating to the Nokia-branded phones and in particular providing sufficient resources (like R&D capabilities) to the new business as well as ongoing expenditures to further develop the new business and hence the enhancement of the Group's overall capabilities (in terms of procurement, value and design engineering and product development, quality management, production management, knowledge building, logistics and distribution competence and the supporting IT systems) to support the new business on a global basis and to find alternative ways of making competitive products. This led to the increase in selling expenses (mainly marketing and communication expenses) and general and administrative expenses (like payroll costs, costs of IT applications and licence fees, travelling costs, professional fees, etc.) and also increase in R&D expenses mainly dedicated to new phone development. It follows that the operating expenses for the current period were US\$245 million, when compared with US\$157 million for the same period last year.

In light of the factors as mentioned above, loss attributable to owners of the Company for the current period was US\$196.6 million, as compared to a net profit attributable to the owners of the Company of US\$21.4 million for the corresponding period last year. The net loss margin for the current period was 4.49%, as compared to the net profit margin of 0.93% for the same period last year.

As at 30 June 2017, 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 5.88% negative, when compared with the ROE as at 31 December 2016 of 3.88% positive, as profit attributable to owners of the Company as at 31 December 2016 has become loss attributable to owners of the Company during the current period. The Group strives to achieve a better ROE.

Income tax expenses during the current period were US\$16.5 million, representing a decrease by US\$13.1 million when compared to income tax expenses of US\$29.6 million for the same period last year. The decrease was mainly due to decrease in profits during the current period.

Basic loss per share for the current period was US2.5 cents.

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Review of Results and Operations *(Continued)*

Dividends

On 9 March 2017, the Board resolved to recommend the declaration and payment of a final dividend of US\$0.00526 per ordinary share of the Company (which in aggregate amounted to approximately US\$42,000,000), and a special dividend of US\$0.01252 per ordinary share of the Company (which in aggregate amounted to approximately US\$100,000,000), respectively, for the year ended 31 December 2016 (collectively, the "Dividends"), subject to the approval of the Company's shareholders. On 25 May 2017, 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 13 April 2017 and the Company's announcement dated 25 May 2017.

On 11 August 2017, the Board resolved not to recommend the payment of an interim dividend for the six months ended 30 June 2017.

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 and there was rapid shift among certain Chinese OEMs (original equipment manufacturers) and the market shares of some of the Group's major customers belonging to international brands declined quite dramatically, and hence some of them drastically changed their outsourcing strategies through restructuring and produced in-house thereby cutting down the previously established outsourcing business with the Group, which had direct impact on the Group's sales in the current period. During the current period, competition continued to be fierce and price and margin erosion was still ongoing. Thanks to the Group's continuous development and penetration of the Chinese brand customers and efforts to expand production capacity in India and implementation and development of the new business relating to the Nokia-branded products, and the Group succeeded to increase system assembly sales in the current period, though there was a decrease in its casing business in the current period.

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Review of Results and Operations *(Continued)*

Sales *(Continued)*

In a slowing smart phone market in 2016 where large players were experiencing growth saturation and there was a slowdown in smart phone shipments with China showing a more mature growth pattern, emerging brands were disrupting existing brands' long-standing business models to gain their market shares. With such changing smart phone market dynamics, Chinese brands were emerging as the new top global brands. According to IDC (a research and advisory firm), there was a year-on-year increase in global handset shipments in the first quarter of 2017. When breaking down precisely where the first quarter growth came from, IDC continued to see the largest catalysts being a handful of Chinese OEMs and these clear leaders had all well outpaced market growth for over a year and they were the only smart phone vendors in the global top five to increase their market shares during the quarter. In the first quarter of 2017, three Chinese brands (two of whom are the Group's major customers) ranked within the top five worldwide smart phone vendors, and represented a total of 22.4% of the market shares; in the first quarter of 2016, these three Chinese brands achieved a total of 18.7% of the market shares and sold smart phones to end users worldwide. As these Chinese brands have gained shares in new territories, the potential to continue this trend is high and this provides ample opportunities to the Group.

In order to fill up the shortfall in the first half of 2016 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 therefore the risks associated with reliance on a handful of major customers. The Group has used customer-centric approach to develop business with some of the top Chinese brand customers and helped them to develop domestically and overseas and this has been the focus of the Group since then. Chinese brand customers contributed to the recovery of the Group's sales in the second half of 2016 and the growth in the current period. The success of these Chinese brands lies in their good hardware designs, robust product quality, attractive prices, strong retailer penetration, effective channel strategy, differentiated and diversified products portfolio, effective marketing initiatives and increasing brand awareness among mass-market consumers as well as well-established distribution system in offline channel. Since the competition in the saturated market is fierce, the Group needs to spend more time and efforts to bring in new customers and get more order allocations from existing customers. For one of the Group's major customers, there has been change of business model from consignment to buy-sell and the change has contributed to some increase of sales revenue in the current period.

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Review of Results and Operations *(Continued)*

Sales *(Continued)*

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 domestic smart phone shipment growth slowing down, all these Chinese OEMs have to expand their reach outside of their own countries and expand beyond China and continue their growth momentum in emerging markets like India where the “Make-in-India” campaign has prompted more local and Chinese brands to seek ODM/OEM/EMS (electronics manufacturing services) partners with massive capacity in India. The Company believed that India and other emerging markets in the Asia-Pacific region would drive most of the smart phone shipment growth in the coming years. Referring to IDC report, in the first quarter of 2017, Chinese smart phones held 51.4% share of smart phone shipments in India with a whopping 142.6% growth year-on-year. On the contrary, share of homegrown smart phones dropped to 13.5% in the first quarter of this year from 40.5% last year. Although homegrown vendors are making attempts to recapture the lost ground with new launches in the mid-range segment, intense competition from Chinese brand vendors continues to be a major challenge and is expected to increase in the coming quarters. The Group has set up and maintained handset assembly factories in India for years and has helped certain Chinese brand customers to develop business and grab more market shares in India and overseas markets outside of China in the past two years. Sales of the Group’s Indian operations in the current period were about triple those in the same period in 2016 and the Group’s factory operations in India is one of the largest contract manufacturers in India and the Group will continue to add infrastructure and capacity to fulfill customer demands in India.

With reference to the Company’s announcements published on 13 April 2017 and 25 May 2017 respectively and circular dated 8 May 2017, it was anticipated that there had been additional projects (particularly those relating to certain new products of a product brand acquired by the Hon Hai Group in 2016) to manufacture and sell parts and other products manufactured or owned by the Group (including handset products, handset parts and other consumer electronic products) to the Hon Hai Group under the Product Sales Transaction (as defined in the Company’s announcement dated 13 April 2017) and the Company envisaged that the existing annual caps for the Product Sales Transaction might not be sufficient and had therefore proposed the revised annual caps in place of such existing annual caps. On 25 May 2017, such revised annual caps were approved by the Company’s shareholders at the extraordinary general meeting of the Company. It follows that there was increase of transactions with the Hon Hai Group under the Product Sales Transaction.

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Review of Results and Operations *(Continued)*

Sales *(Continued)*

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 and HMD with a view to building a globally successful business in the field of Nokia-branded mobile phones and tablets. From 2017, the Group started to generate sales revenue and distribution service income from such collaboration. For details of the new business and ancillary matters, please refer to the Company's relevant announcement dated 18 May 2016 and "Investments" and "Outlook" below.

As a related matter, 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, engineering capability, advanced technology like automation and large capacity instrumental for core competence and competitive edge. Long-term win-win business relationships with the customers can then be built up, developed and fostered.

P&L (Profit and Loss)

As mentioned above, the year-on-year increase of sales was mainly attributable to the corresponding expansion of system assembly business of lower gross margin. With rising competition from peers, crowded competition in casing business induced pricing pressure on the Group and hence inevitably imposed pressure on gross margin % too. To relieve its pricing and gross margin erosion pressure in the stiff competitive handset market and for the purpose of increasing business visibility, the Group has strived to improve efficiency and maintain a good and stable yield by enhancing production automation and asset utilisation and capacity optimisation and also quality assurance and quality control and tighter control on manufacturing overheads. 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. Furthermore, there has been continuous strong support from the Hon Hai Group to offer in scale, solid component support and stable supply of key components and vertically integrated supply chain that allow for production synergies. The Group can leverage on the Hon Hai Group's resources, giving the Group more flexibility in outsourcing capacity. 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 end-to-end and value-added product design and development solutions. All these initiatives have been implemented to allow the Group to be more price competitive via cost leadership and win more volumes of business from the customers and achieve economy of scale and enhance the bargaining powers with suppliers, thus mitigating the pressure from price and gross margin erosion due to keen competitions and product mix deterioration with lower ASP (average selling price) pressure from some customers.

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Review of Results and Operations *(Continued)*

Operating Segments

Across overall business in 2016, through the efforts of developing business with Chinese brands, Asia segment remained the Group's core performance contributor and the efforts continued in 2017. The revenue of Asia segment in the current period was US\$3,850 million, representing an increase of 90.6% from that for the same period last year (30.6.2016: US\$2,020 million) and the growth was mainly due to the growth of sales (principally sales arising from system assembly business and some Nokia-branded phones sold to China market) to Chinese brand and Indian customers. In the current period, Asia segment's recorded earnings were US\$99 million and were less than the recorded earnings of US\$140 million for the same period last year, mainly because the growth of sales arose from system assembly business of lower gross margin %. 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 research and product development) and Taiwan (for research and product development) 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 (especially India) and develop more new businesses and customers there. In particular, the new business relating to the Nokia-branded products contributed a lot to Asia segment, particularly the distribution service income derived from the new business when a lot of Nokia-branded handsets have been distributed throughout the Asian emerging markets.

Many years ago, the Group already had manufacturing operations in Chennai of India. The Group has started to become active again in India since the second half of 2015. Production capacities and facilities were added in Andhra Pradesh State catering to the increasing domestic demands and the Indian Government's "Make-in-India" initiatives and this fueled the growth of sales of Asia segment too.

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Review of Results and Operations *(Continued)*

Operating Segments *(Continued)*

The revenue of Europe segment improved a lot in the current period as the Group has started to ship feature phones and smart phones under the new business relating to the Nokia-branded phones. The recorded revenue of European segment in the current period was US\$471 million when compared with the recorded revenue of US\$96 million for the same period last year. The recorded earnings of this segment in the current period were US\$4.9 million which were higher than the recorded earnings of US\$0.5 million for the same period last year. In the context of the new business relating to the Nokia-branded phones, as mentioned above, there was fierce price competition and the selling price of the Nokia-branded phones have to be competitive upon its re-launching to the handset market and the Group has to devote resources to develop new products for HMD and build up sourcing capabilities and manufacturing scale and the margin is under huge pressure. At this stage, notwithstanding the foregoing, the performance of Europe segment did not have much adverse impact on the Group's overall performance. Having said that, when smart phone sales volume grows during the rest of this year, the Group has to monitor more closely and then assess the impact of the performance of this segment on Group's overall performance.

For America segment, because of the loss of market shares and change of outsourcing strategies, certain key customers of the Group which previously shipped a lot of products to America segment reduced their orders to the Group in 2016 and in the current period, thus leading to further shrinkage of sales of America segment in the current period, thereby further adversely affecting performance of this segment. The recorded revenue of America segment in the current period was US\$53 million when compared with the recorded revenue of US\$190 million for the same period last year. The recorded earnings for the current period were US\$3.9 million when compared with the recorded earnings of US\$6 million for the same period last year. The performance of America segment did not have a significant adverse impact on the Group's overall performance as sales and earnings of America segment had dropped since 2016 and now became insignificant to the Group's overall sales.

BUSINESS REVIEW (Continued)

DISCUSSION AND ANALYSIS (Continued)

Review of Results and Operations (Continued)

Investments

The Group has continued to enhance its EMS and related fulfillment businesses in order to reinforce the Group's dominant position in the mobile handset manufacturing industry through investments and M&A (mergers and acquisitions) activities.

Investments in New Business relating to Nokia-Branded Products

For the new business relating to the Nokia-branded products as operated through the "TNS"-named entities and related entities altogether belonging to the Group (collectively, "TNS"), the collaboration among Nokia, HMD and TNS has provided for a framework among the parties with a view to building a globally successful business in the field of Nokia-branded mobile phones and tablets. Pursuant to such collaboration, while HMD has been engaging exclusively in the Nokia-branded products business, TNS has continued to develop business with HMD covering primarily feature phones and smart phones together with accessories under the manufacturing and distribution arrangements between HMD and TNS, so that the Group could generate more revenue as well as enhance utilisation of its assets, capacities and capabilities in its handset manufacturing business and fulfillment services. The Company notes HMD's ambitious plans to become a globally recognised player in the handset and tablet markets. In the current period, the Group's strategic partnership with HMD has gradually taken shape and become much more closer so as to enable the strategic partners to jointly tackle with and resolve some teething problems through swift actions towards better achievement of their objectives. This demonstrated the strength of the Group, in particular, its operations and R&D capabilities. At present, for the feature phone part of the new business, the Group, via TNS, has direct commercial relationships with over 100 partners and customers spreading over 65 countries, while, for the smart phone part, the Group, via TNS, has direct commercial relationships with 90 partners and customers spreading over 59 countries (which may overlap with the feature phone ones). The Group firmly believes that this is its competitive advantage in the long term. The Group will continue to invest in the new business, particularly the expansion of its network to further enhance its global presence, allowing countless partners, customers and consumers easier access to its products and services.

In the current period, 2 new feature phone models were made available in the global market and have been well received, and in particular, one of the feature phone models has quickly become a cult symbol and generated much attention and interest from many analysts, bloggers and more importantly consumers. Although the feature phone market size is on a slow decline, with innovative designs and meaningful functional enhancements, there are still lucrative opportunities to be harvested in this market segment. The Group expects future new products (both smart phones and feature phones) to be announced and made available in the second half of 2017 as the Group strives to remain as the market leader in the handset manufacturing industry.

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Review of Results and Operations *(Continued)*

Investments *(Continued)*

Investments in New Business relating to Nokia-Branded Products (Continued)

On the smart phone side, in addition to the above, the Group's journey started with a bang in January 2017 with the introduction of a new smart phone as a local PRC (the People's Republic of China) version. Supply was available during the 2017 Chinese New Year selling season and consumer demand quickly exceeded the Group's expectation. New smart phones were announced in 2017 MWC (Mobile World Congress, which was held in February/March 2017) and have been commercially available in the current period. Early indications are very positive with much publicity on product-build quality and craftsmanship, delivering the brand promise matching that attached to Nokia products previously launched by Nokia itself. The TNS working teams are very excited about the start with this range of products, and TNS and HMD will continue to work together to expand the product offerings in the second half of 2017 to cater for increasing consumer demands.

Notwithstanding that the journey has enjoyed a solid start, the Group is cautious about unforeseen factors and circumstances like fluctuating market conditions (such as demand of the products, market competitiveness and price and margin erosion pressure) and economic uncertainties, particularly to fill in the gaps to achieve its strategic ambition and objective. Continuous investments in TNS are still needed to expand its commercial network, product offerings, product developments, application systems, manufacturing footprint and talents recruitment with the aim to operating the new business relating to the Nokia-branded products more smoothly and successfully in the long run. These investments together with the gross margin erosion pressure mentioned above will unfortunately continue to be a heavy burden on the Group and hence its profitability and margins. For details, please see the Company's announcement dated 3 April 2017 and "Outlook" below. However, it is anticipated that as the new business size increases, this burden will gradually be reduced correspondingly. In addition, the Group will continue to work on business synergy and process improvements to make the entire operations more efficient.

Other Major Investments

With the continuous development of Internet and the mobile ecosystem, the Group has partnered with some strong mobile application and services companies in order to capture the market growth, implementing the "Hardware and Software Integration" strategy.

In August 2016, the Group invested approximately US\$50 million in Hike Global Pte. Ltd. ("Hike"), an India-based social media application developer. Hike built up an instant peer-to-peer messaging application with localised lifestyle functions and currently has more than 130 million registered users in India. Hike continued to work on providing better user experience and launched Hike v5.0 in June 2017. By launching more fun and lifestyle functions such as filter and wallet and improving application efficacy, Hike hoped to drive user growth with its localised strategy. The Group's investment in Hike represented about 3.36% (calculated on as-converted and fully-diluted basis) of the total issued shares of Hike as at 30 June 2017. As at 30 June 2017, the Group's investment in Hike had a carrying value of US\$50 million and represented 0.68% of the Group's total assets.

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Review of Results and Operations *(Continued)*

Investments *(Continued)*

Other Major Investments (Continued)

Another major investment of the Group is its total US\$24 million equity investment in Meitu, Inc. (whose shares are listed and traded on the Stock Exchange with stock code: 1357, “Meitu”), a leading mobile internet platform company specialising in photo and video applications, as well as selling self-branded smart phones for optimised selfie experience. According to the earlier news released, its applications have been installed on more than 1.1 billion devices worldwide and in order to enhance profitability, it has launched the two e-shopping platforms, namely Meipu (a fashion-focused social shopping community) and Meitudingzhi (allowing users to dye and print their own photos on different items). The Group’s total investment in Meitu represented about 1.55% (calculated on as-converted and fully-diluted basis) of the total issued shares of Meitu as at 30 June 2017. As at 30 June 2017, US\$48 million of unrealised revaluation gain was recognised from an accounting perspective as “Other Comprehensive Income” by the Group for its share price growth in the market. As at 30 June 2017, its fair value amounted to US\$72 million and represented 0.99% of the Group’s total assets. Since Meitu launched its initial public offering successfully in Hong Kong, the Group has disposed of part of its Meitu shares to realise a portion of the financial return from such investment. For details, please see the Company’s announcement dated 9 August 2017. The Group may consider whether to dispose of more Meitu shares after having evaluated the possible alternatives to maximize the benefits from the remaining portion of such investment.

The Group invested in Mango International Group Limited (“Mango”), a company which provides smart phone devices in global hotel rooms which are used with compliment for travelers through customised system for each hotel. It generates further values for the Group and its investment in Mango from the synergies between Mango’s hardware-as-a-service business model and the Group’s handset manufacturing experience in supplying phones to Mango. For details, please see the “Investments” section of the Report of the Directors included in the Company’s 2016 Annual Report. In the current period, Mango continued to increase the scale of participating hotels. In order to expand its business in the Japan market, Mango and Sharp jointly set up an entity, handy Japan Holdings Company Limited, which has already started business during the current period. However, it is expected to face keener competition from apparently similar functioned services or products in the future. The Group’s total investment in Mango represented about 21.59% (calculated on as-converted and fully-diluted basis) of the total issued shares of Mango as at 30 June 2017. As at 30 June 2017, the Group’s total investment in Mango had a carrying value of US\$75.7 million, and the fair value of the outstanding convertible note issued by Mango in favour of the Group amounted to US\$60 million. It represented 0.82% of the Group’s total assets as at 30 June 2017.

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Review of Results and Operations *(Continued)*

Investments *(Continued)*

Other Major Investments (Continued)

The Group's US\$200 million equity investment made in September 2015 in India-based Jasper Infotech Private Limited ("JIPL"), which runs an online marketplace and shopping site known as "snapdeal.com" in India, represented about 4.07% (calculated on as-converted and fully-diluted basis) of the total issued shares of JIPL as at 30 June 2017. Since 2016, Amazon, one of the world's largest online marketplace operators, heavily increased its investment in India. At the same time, JIPL's biggest local rival Flipkart also successfully raised US\$1.4 billion in April 2017. Both resulted in keener competition in the Indian e-commerce market, and hence the financial performance of JIPL was negatively affected. In view of JIPL's financial position, the Group recognised US\$160 million impairment loss as at 19 May 2017. The post-impairment US\$40 million equity investment in JIPL represented 0.55% of the Group's total assets as at 30 June 2017.

Other Miscellaneous Investments

In the current period, the Group made certain comparatively minor investments which may worth mentioning in the context of its investment strategies and objectives.

In June 2017, the Group invested about US\$3 million in Essential Products, Inc. ("Essential"), a U.S.-based high-end Android smart phone company led by a group of experienced experts in the mobile industry (including Essential's founder who is a co-founder of Android). In particular, the Group has entered into an ODM partnership with Essential, principally providing the latter with the Group's engineering design expertise and cutting-edge manufacturing technology. The Group believes that the deep collaboration with Essential is a powerful alliance which will create great synergy and bring a series of promising products to the handset market. The Group's total investment in Essential represented about 0.25% (calculated on as-converted and fully-diluted basis) of the total issued shares of Essential as at 30 June 2017.

The Group invested about US\$2.2 million in Jiangsu Liang Jin E-Commerce Holdings Ltd. (whose shares are listed and traded on the PRC's "New Third Board" (NEEQ, National Equities Exchange and Quotations) with stock code: 834438.OC, "Liang Jin"), which is a distributor of mobile devices and accessories in the PRC. Liang Jin has successfully built up its e-commerce platform to eliminate multiple intermediaries in mobile device supply and developed businesses with certain top international brand customers. The Group not only gains exposure towards e-commerce industry, but also leverages on Liang Jin's channels to distribute its customers' products in the PRC. Since Liang Jin's successful listing in the PRC in December 2015, the Group has enjoyed about 116% growth for its investment in Liang Jin with a fair value of US\$4.75 million as at 30 June 2017, and received scrip dividend and cash dividend in May 2017. As a result, the Group's total investment in Liang Jin represented about 4.41% (calculated on as-converted and fully-diluted basis) of the total equity interests of Liang Jin as at 30 June 2017.

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Review of Results and Operations *(Continued)*

Investments *(Continued)*

Other Miscellaneous Investments (Continued)

The Group invested in Razer Inc. ("Razer"), a U.S.-based company specialised in integrated hardware and software platforms marketed specifically to gamers. By way of background, the Group held a US\$3 million investment by way of a convertible promissory note in Nextbit Systems Inc., a U.S.-based company which developed and sold cloud-integrated smart phones ("Nextbit"). At the beginning of this year, Nextbit was acquired by Razer, whereby the Group acquired Razer's shares worth of US\$4 million in settlement of part of the accounts receivable from Nextbit, and reached an agreement with Nextbit to settle the said convertible promissory note and the remaining accounts receivable in cash. In furtherance of robust growth of e-sports market and Razer's highly-praised niche in gaming hardware and software, the Group additionally invested about US\$1 million in Razer. The Group believes that Razer will keep expanding its product lines and cooperate with the Group to create a comprehensive and seamless gaming experience for its global users. The Group's total investment in Razer represented about 0.32% (calculated on as-converted and fully-diluted basis) of the total issued shares of Razer as at 30 June 2017.

CExchange, LLC ("CEX") engages in the business of consumer electronics trade-in and buy-back. In the current period, CEX made improvement in diversifying its customer portfolio and providing quality and innovative services to its customers, and its operational performance steadily improved in view of its increased revenue and gross margin. Therefore, the Group made further investment of a total of about US\$1.3 million in CEX in November 2016 and February 2017 respectively. As at 30 June 2017, the Group's investment represented 49% of the total membership interests of CEX. Its carrying value of US\$8.7 million represented 0.12% of the Group's total assets as at 30 June 2017.

The Group made its US\$2.5 million equity investment in MoMagic Technologies Private Limited ("MoMagic"), which helps application developers and content firms reach consumers through various means in mobile networks at the Indian handset market. After the investment from the Group in October 2015, MoMagic was able to develop its technologies and demonstrated a sustainable profitability model. In the future, MoMagic will expand its business by broadening its geographical outreach to other Asian countries, and bring in more values to its customers by providing them with analytic service of data, traffic and mobile use behaviours for more-precise e-advertising in the Indian market. As at 30 June 2017, the Group's investment in MoMagic represented 10% (calculated on as-converted and fully-diluted basis) of the total issued shares of MoMagic.

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Review of Results and Operations *(Continued)*

Investments *(Continued)*

Other Investment-Related Matters

For the current period, except as disclosed above and based on the information currently available, the Group was not aware of any circumstances which involve any material impairment in respect of its major investments, and the Company believes that their long-term prospects are optimistic for the time being. In such a dynamic and volatile equity investment market, the Group's investment team is cautious at all times, and therefore they will continue to monitor the performance and financial position and fund raising activities of investees, related macro-economic factors and competition landscape and technological changes, market sentiment as well as execution capabilities of the respective management teams of those investees (among other things) in order to assess if any impairment indicator may arise, especially when the total equity investment amount has increased a lot upon addition of new major investments to the Group's portfolio in 2015 and 2016 and the recent significant impairment of an equity investment.

In addition, the Group has made some other investments in new start-up software and technology companies and hardware companies in wearables and IoT (Internet of Things) fields of comparatively smaller investment amount in each case. As a result, the Group has a diversified investment portfolio, ancillary to and in support of its business operations.

The Group has been maintaining healthy cash flows for years. As at 30 June 2017, the Group had a cash balance of US\$1,781 million, which provides the Group with adequate financial resources to cope with unforeseen operational fluctuations. In order to have a better utilisation of the cash and enrich the investment portfolio, the Group has been actively exploring good investment opportunities. Apart from the existing business, the Group is dedicated to exploring new business by establishing strategic partnerships with technology companies and making equity investments in companies of good potential. The Group has an experienced investment team, and has prioritised investments among the highest long-term growth prospect which may take years before investment can be realised. The Group will be cautious on expanding its investment portfolio in order to create synergies but at the same time to cope with the uncertain economic environment in 2017.

There had been no material disposals of the Group's subsidiaries, associates and joint ventures for the current period.

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Review of Results and Operations *(Continued)*

Compliance with Relevant Laws and Regulations

During the current period, the Group has complied in all material respects with the relevant laws and regulations that have a significant impact on the Group, examples of which include those relating to foreign investment, taxation, import and export, logistics and distribution, foreign exchange control and intellectual property, and (as the Company's shares have been listed and traded on the Stock Exchange) applicable requirements laid down by the Listing Rules and the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (the "SFO").

The Group has been operating multi-nationally (coupled with investments) in its principal operating segments, namely Asia, America and Europe. In particular, the Group's legal structures and funding arrangements, business models, supply chain and general operations have been structured and realigned in a tax-efficient manner and tax-advantaged way to optimise income tax expenses (as well as cash flows) legitimately from tax, commercial and financial perspectives in multiple jurisdictions. In this respect, the Group's major operating subsidiaries fall under different tax regimes in the PRC, Taiwan, India, Vietnam, U.S.A., Finland and America where different tax laws and regulations as well as specific concessionary incentives apply. For example, when planning the business model and supply chain of the Group's Indian operations, among other things, duty structure of domestic manufacturing was compared with direct import, and possible implications and impacts arising from newly-introduced GST (goods and services tax) were assessed. The Group has also obtained (where available) local tax preferences, tax exemptions and other tax incentives (such as super deduction of R&D expenses) and utilised tax losses available, thereby reducing the Group's tax liabilities towards its net profit. During the current period, there were no major changes in applicable tax laws and regulations which have impacted the Group's tax expenses, and the Group will continue to monitor possible impacts and implications arising from applicable new and/or revised tax laws and regulations.

The Group has kept abreast of the accelerating pace of tax, legal and regulatory developments in different jurisdictions, both locally and globally, and there are regular and on-going reviews of existing investment holding structures and operations as well as business models and capital structures in light of the latest tax, legal/regulatory and business requirements and environment. In this respect, the Group's major operating subsidiaries have taken appropriate steps to ensure that each of them takes the relevant local concerns and customs into account in relation to its operations, particularly value chain management, as appropriate.

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Review of Results and Operations *(Continued)*

Compliance with Relevant Laws and Regulations *(Continued)*

The Group has also responded to trade restrictions imposed by different jurisdictions on components or assembled products by having obtained and maintained necessary import and export licences and paying necessary import and export duties and tariffs. In addition, the Group has abided by the relevant currency conversion restrictions and foreign exchange and repatriation controls on foreign earnings. Further, the Group has depended in part on its ability to provide its customers with technologically sophisticated manufacturing and production processes and innovative mechanical product designs and developments, and accordingly, has been protecting its and its customers' respective intellectual property rights. The Group has also complied with applicable requirements laid down by the Listing Rules and the SFO.

In relation to the Group's compliance with the relevant laws and regulations that have a significant impact on the Group relating to environmental, social and governance aspects, please refer to specific discussions in the Environmental, Social and Governance Report, which forms part of the Company's 2016 Annual Report.

Liquidity and Financial Resources

As at 30 June 2017, the Group had a cash balance of US\$1,781 million (31.12.2016: US\$1,374 million). Free cash flow, representing the net cash from operating activities of US\$257 million (31.12.2016: US\$234 million) minus capital expenditure and dividends of US\$218 million (31.12.2016: US\$329 million), was US\$39 million inflow (31.12.2016: US\$95 million outflow). The improvement in free cash flow was mainly due to less dividends paid and capital expenditure incurred during the current period. 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\$346 million (31.12.2016: US\$419 million) over total assets of US\$7,307 million (31.12.2016: US\$6,963 million), was 4.74% (31.12.2016: 6.02%). All of the external borrowings were denominated in USD (31.12.2016: USD, RMB and Japanese Yen). 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 1.44% to 1.88% (31.12.2016: fixed rate ranging from 0.45% to 8%) per annum with original maturity of one to three months (31.12.2016: one to six months).

As at 30 June 2017, the Group's cash and cash equivalents were mainly held in USD and RMB.

Net cash from operating activities for the six months ended 30 June 2017 was US\$257 million.

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Liquidity and Financial Resources *(Continued)*

Net cash from investing activities for the six months ended 30 June 2017 was US\$315 million, of which, mainly, US\$76 million represented the expenditures on property, plant and equipment related to the facilities in the Group's major sites in the PRC, US\$14 million represented withdrawal of bank deposits, US\$1,861 million represented purchase of short-term investments, US\$4 million represented purchase of available-for-sale investments, US\$1 million represented capital injection in an associate, US\$6 million represented proceeds from disposal of property, plant and equipment, US\$0.2 million represented purchase of equity interest in a subsidiary and US\$2,237 million represented proceeds from settlements of short-term investments.

Net cash used in financing activities for the six months ended 30 June 2017 was US\$215 million, primarily due to net decrease in bank borrowings of US\$73 million and dividends paid of US\$142 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 three 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 2017, the capital commitment of the Group was US\$5.8 million (31.12.2016: US\$8.4 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 2017 and 31 December 2016.

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Outlook

Compared to the turbulent 2016 which is an eventful year with a number of “black swan” events globally, 2017 global outlook becomes stable on improving economic and political landscape. Global economic growth remains on track as some negative developments with the potential jeopardising the economic recovery failed to materialise. U.S. President Donald Trump’s protectionist agenda has not yet come to fruition and global trade is in good shape. Among the emerging economies, fears of a sharp slowdown in China have almost disappeared. Although growth in China has decelerated, it is expected to remain robust throughout this year with growth in industrial production and retail sales steadying while the Chinese authorities will continue with the implementation of a number of economic and structural reforms such as reducing industrial overcapacity and deleveraging the financial sector and the China economy is feeling the pinch from a tighter monetary policy and liberalising the financial market. Moving to the second half of 2017, uncertainty could edge up as China’s macro outlook will be dependent on its policy plan after the 19th National Congress and whether the Chinese Government will further increase its infrastructure investment or will it push ahead with its reform program. All these decisions will have impact on China’s economy and the global financial market. Integration into global value chains was instrumental in China’s spectacular economic growth in recent decades. Moving to higher value-added production calls for improvements in the quality and relevance of innovation when lower-skilled jobs move to lower-cost countries in the region.

According to IDC, there was a year-on-year increase in global handset shipments in the first quarter of 2017 and IDC reported that there was no question that 2016 was a pivotal year for the industry as growth dipped to low single digits for the first time. However, IDC believes that the industry will show some rebound in 2017, and the strong first quarter results certainly support this argument. This is a good indication but the Group is always cautious of the intensive competition from peers squabbling for the same handset pie as the entry barrier to handset industry becomes low and the rapid shift among certain Chinese OEMs may impact overall demand visibility of the Group’s end markets and future demands of the products that the Group will manufacture and the services that the Group will provide.

The competitive environment in the Group’s industry is very intense, and aggressive pricing is a common business dynamic. As mentioned above, Asia segment has remained the Group’s core performance contributor, and China is the focus of Asia segment. China, the world’s largest smart phone market, becomes mature and heavily penetrated and showed a more mature growth pattern. Phones are now increasingly capable and remain good enough for longer and this will extend the replacement cycle of smart phones and Chinese consumers are not compelled to upgrade quickly. According to IDC, it witnesses a shift in many phone makers’ portfolios geared towards affordable devices with premium-type styling compared to flagship models and phone makers have started to implement a single premium design language that ultimately blurs the lines between the high end and the low end, allowing the average consumer to jump on the brand without a hefty upfront investment.

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Outlook *(Continued)*

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 competition remains fierce, competition from EMS/ODM/OEM peers is deemed to intensify to create pressure on the Group's business and there may be slower new customer gain with rapidly growing smart phone vendors. 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 pressure on the Group's sales and the sales mix and margin, loss of market acceptance of its services, compression of its profits or loss, loss of its market share and all the challenges drive the Group to make continuous improvements.

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 high-end and 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, Middle East and Africa) 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 domestic 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 has helped these Chinese brands to expand aggressively and internationalise rapidly 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 leading industry 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)*

Despite of the increase of revenue due to increase in system assembly business and that such trend will continue in the second half of 2017, there has been pressure to gross margin. Smart phone industry is dynamic and highly competitive. Slower growth could bring about industry consolidation, potentially pressuring the supply chain. The Group needs to put efforts to get more casing business. In light of the above-mentioned 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. On the operation side, the Group will continue to improve efficiency by enhancing control over labour cost, overheads, scraps, operating expenses, idle assets and monitoring capacity and utilisation. The Group's automation engineering team will further increase automation coverage ratio across different manufacturing process. After a few years of efforts in improving efficiency and yield and remaining lean and agile, these initiatives could enable the Group to be more flexible in running even low-volume/high-mix businesses at competitive pricing. The Group is now able to handle more high-mix and small volume orders. 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. The Group will continue to invest in PD (product development)/PM (product manufacturing) and R&D capability to further strengthen ODM competence and attract new customers. The one-stop shopping service and abundant resource of the Group (with support from the Hon Hai Group, which offers scale, solid experience and control in key components) are especially attractive for Chinese brands. 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.

The biggest challenge is the new business relating to the Nokia-branded products. At this stage, the Nokia-branded products primarily comprise feature phones and smart phones. The Group's strategic partner HMD obviously needs time to promote, develop and prove itself in the competitive handset market (especially for smart phones). HMD has to secure product quality, strong retailer penetration, effective channel strategy, differentiated and diversified products portfolio, effective marketing initiatives and increasing brand awareness among mass-market consumers and all these will increase costs of HMD running the Nokia-branded phone business. In order to penetrate the market and capture market share in the beginning, the pricing of the Nokia-branded phones has to be very competitive and

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Outlook *(Continued)*

aggressive and cannot be sold at prices higher than those adopted by its competitors in respect of similar products. In addition, Nokia-branded phones also need to have better hardwares and specifications than competitors' products of similar selling pricing so as to induce consumers to switch to the Nokia-branded phones and this will inevitably increase bill of material costs of phones and squeeze gross margin. These posed huge pressure to the selling price and gross margin of phones sold by the Group to HMD. As the strategic partner and exclusive supplier of HMD, the volume of the new business and the related margins will largely depend on success of HMD in its Nokia-branded products business and the Group's gross margin of the new business is subject to extremely huge pressure at the early stage when the selling price of phones to HMD has to be very aggressive and before scale can be built up and components and parts can be bought at better prices and it is expected that the third quarter of this year will be a very difficult and bad period. When volumes go up, with the joint efforts of design engineers and sourcing teams, it is expected that the Group will have more bargaining power on procurement and pricing of some key components can be lowered gradually and the gross margin performance will gradually improve. Of course, these need time to be accomplished as the market is really competitive. Once HMD has foothold in the market, it can experiment some premium on some product segments. It is now at the early stage to build up the product line and it is a process where it needs time to accumulate demand with marketing and public relations positioning against competition. The Group is looking at a long-term prospect of the new business operated by TNS and the phone manufacturing business.

From 2017, the Group and TNS have put efforts and resources and recruited more talents to develop products and institute proper concepting process with engineering competence to design cost down solutions and build up sourcing capability and quality management capability and application systems and applications and management system and governance and run the production facility and distribution/fulfillment network in a cost-effective manner and all these initiatives need time before the savings and efficiency enhancement can be materialised. Supplier management cannot be singly dimensionally driven on cost, and clear quality criteria need to be set to develop culture of quality and deepen supplier quality management process to cover key functional criteria, especially in all consumer experience impacting areas. For the large year-on-year increase in general and administrative expenses of the Group in the current period, it was mainly due to the additional expenses (like payroll costs, system/process licence fees, professional fees, etc.) incurred by TNS in running the new business. There was also year-on-year increase in R&D expenses dedicated to new phone development. All these costs will continue to be incurred, and coupled with the factors mentioned above, the net margin will continue to be subject to huge pressure.

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Outlook *(Continued)*

On the whole, the Group has to continue to invest costs and devote resources into the new business and enhance the Group's overall capabilities (in terms of procurement, value and design engineering and product development, quality management, manufacturing footprint, production management, expansion of commercial network, product offerings, logistics and distribution competence and cultivation of talents needed to run the new business smoothly and successfully in the long run) to support the new business on a global basis and to find alternative ways of making competitive products. These investments together with the gross margin erosion pressure mentioned above will unfortunately continue to be a heavy burden on the Group and hence its profitability and margins. However, as the new business size increases, this burden will gradually be reduced correspondingly. The Group can create consumer pull that enables it to start benefiting from the new business incrementally. In addition, the Group will work on business synergy and process improvements to make the entire operations more efficient. As the OEM and ODM market is competitive and close to saturation, this is an opportunity for the Group to drive sales and volume and scale and develop a new area of competence which the Group aims to develop on top of its existing OEM and ODM businesses.

Apart from its existing business, the Group is dedicated to exploiting new business by establishing strategic partnerships (such as the collaboration with Nokia and HMD 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 2017.

Looking ahead, the Company understands the tremendous challenges in 2017. 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 Corporate Governance Report, which forms part of the Company's 2016 Annual Report.

On the basis of a preliminary review of the Group's latest unaudited management accounts and other information currently available, the Company understands that the Group is likely to record a consolidated net loss for the year ending 31 December 2017, when compared to the Group's consolidated net profit of US\$136,211,000 for the year ended 31 December 2016, primarily as a result of various factors, including those set out in the Company's announcement dated 19 May 2017. The Company expects the costs relating to the new business operated by TNS to continue into the second half of 2017 and the gross margin erosion pressure to be huge. At this stage, on the basis of a preliminary review of currently available information, the Company expects the Group to record a consolidated net loss for the second half of 2017 and accordingly for the year ending 31 December 2017, but it is currently unable to reasonably and meaningfully estimate the likely magnitude of any such loss. The Company will make further announcement in compliance with the Listing Rules and/or the SFO, as appropriate.

BUSINESS REVIEW *(Continued)*

DISCUSSION AND ANALYSIS *(Continued)*

Outlook *(Continued)*

The Company's shareholders and potential investors should note that the Company is in the process of reviewing the Group's consolidated final results for the year ending 31 December 2017. The information in this interim report is the result of a preliminary assessment by the Company's management based on the Group's latest unaudited management accounts and other information currently available. That information is subject to possible adjustments following further internal review, and is not based on any figure(s) or information which has/have been reviewed by the Company's auditors or audit committee. The Group's finalised audited consolidated final results and other related details will be disclosed in the Company's 2017 final results announcement, which is tentatively scheduled to be published in March 2018.

In the meantime, pursuant to applicable disclosure requirements laid down by the Taiwan Stock Exchange Corporation, Hon Hai is required to disclose in due course (which is expected to be in or about November 2017) certain unaudited consolidated financial information of the Group for the nine months ending 30 September 2017, and simultaneously upon such disclosure in Taiwan, the Company will announce the same financial information in order to facilitate timely dissemination of information to investors and potential investors in Hong Kong and Taiwan.

The Company wishes to take this opportunity to reiterate that the Group's quarterly performance may fluctuate (possibly significantly) as a result of a number of factors. For example, performance over certain periods may vary as a result of a combination of the seasonality of sales, factors relating to the supply chain (e.g. components sourcing and availability) and to inventory (e.g. accumulated inventory may take time to clear), and customers' product launch or product recalibration strategies and market competitiveness. Other factors can also give rise to uncertainty. For example, the Group's financial exposure to market volatility (e.g. RMB and other currency volatility, stock market volatility) can result in gains or losses; likewise with respect to any future impairments of property, plant and equipment, goodwill or intangible assets and equity investments, and the timing of dispositions of equity investments and resulting profits/losses, and the performance of the Group's associates and its share of those associates' profits/losses, renewing or meeting the conditions of any tax incentives and credits, and the timing of receipt of incentive income, can all (individually and collectively) affect quarterly performance.

Shareholders of the Company and potential investors are advised to exercise caution when dealing in the shares of the Company.

Notwithstanding the foregoing, 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.

OTHER INFORMATION

DIRECTORS

Pursuant to the approval of the board of directors of the Company (the “Board”) on 31 March 2017 and the approval of the Company’s shareholders on 25 May 2017, Mr. WANG Chien Ho, an executive director of the Company, was re-elected for a term of three years ending on 6 June 2019 subject to retirement and re-election under the articles of association of the Company. He is entitled to annual emoluments package of NT\$2,295,000 and a discretionary bonus to be determined by the Board from time to time with reference to the Company’s performance, his duties and responsibilities with the Company, his contribution to the Company and the prevailing market practice.

Pursuant to the approval of the Board on 31 March 2017, Mr. HUANG Chin Hsien (“Mr. Huang”) and Dr. LUO Zhongsheng (“Dr. Luo”) were appointed as executive directors of the Company with effect from 31 March 2017. Pursuant to the approval of the Company’s shareholders on 25 May 2017, Mr. Huang and Dr. Luo were re-elected for a term of three years ending on 30 March 2020 subject to retirement and re-election under the articles of association of the Company. Mr. Huang is entitled to annual emoluments package of NT\$2,800,000 and a discretionary bonus to be determined by the Board from time to time with reference to the Company’s performance, his duties and responsibilities with the Company, his contribution to the Company and the prevailing market practice. Dr. Luo is entitled to annual emoluments package in an approximate aggregate amount of US\$484,380 and a discretionary bonus to be determined by the Board from time to time with reference to the Company’s performance, his duties and responsibilities with the Company, his contribution to the Company and the prevailing market practice.

Pursuant to the approval of the Board on 9 March 2017, Mr. TAO Yun Chih (“Mr. Tao”) was appointed as an independent non-executive director of the Company with effect from 9 March 2017. Pursuant to the approval of the Board on 31 March 2017 and the approval of the Company’s shareholders on 25 May 2017, Mr. Tao was re-elected for a term of three years ending on 8 March 2020 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 per month (less any necessary statutory deductions). Mr. Tao was also appointed as the member of the audit committee, remuneration committee and nomination committee of the Company with effect from 25 May 2017.

OTHER INFORMATION *(Continued)*

DIRECTORS *(Continued)*

Mr. CHEN Fung Ming retired as an independent non-executive director of the Company with effect from 25 May 2017. It followed that he ceased to be the member of the audit committee, remuneration committee and nomination committee of the Company with effect from 25 May 2017.

Mr. Huang has become a director of FIH Co., Ltd. (the Company's wholly-owned subsidiary incorporated in Taiwan) with effect from 1 April 2017, Fu Hong Enterprises Limited (the Company's indirect wholly-owned subsidiary incorporated in the British Virgin Islands) with effect from 12 May 2017 and Chiun Mai Communication Systems, Inc. (the Company's indirect subsidiary incorporated in Taiwan) with effect from 22 June 2017.

Dr. Luo has become a director of 深圳市富宏訊科技有限公司 (Shenzhen Fu Hong Xun Technology Co., Ltd. for identification purposes only) (the Company's indirect wholly-owned subsidiary incorporated in the PRC) with effect from 30 March 2017, 益富可視精密工業(深圳)有限公司 (InFocus Precision Industry (Shenzhen) Co., Ltd. for identification purposes only) (the Company's indirect wholly-owned subsidiary incorporated in the PRC) with effect from 10 May 2017 and Innomaxx Pte. Limited (the Company's indirect wholly-owned subsidiary incorporated in Singapore) with effect from 5 May 2017.

Mr. Tao has become the chairman of We Interactive (TW) Ltd., which is a start-up focusing on providing streamers and related value-added services to live streaming platforms, with effect from 2 May 2017. Before this, he was the vice president, business partnerships in Next Entertainment (HK) Ltd., which is a start-up focusing on providing global leading pan-entertainment live streaming platform and related eco-system.

COMPANY SECRETARY

Mr. LAW Sai Hay has resigned as the company secretary of the Company, and Ms. Vanessa WONG Kin Yan has been appointed as the company secretary of the Company, in each case with effect from 29 June 2017.

OTHER INFORMATION (Continued)

DISCLOSURE OF INTERESTS

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

As at 30 June 2017, 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
CHIH Yu Yang	Company	Personal Interest	14,227,857	0.1782%
	Hon Hai	Personal Interest	1,054,594	0.0061%
	Chiun Mai	Personal Interest	1,000	0.0007%
	Communication Systems, Inc. (Note)			
HUANG Chin Hsien	Hon Hai	Personal Interest	914	0.00001%

Note: The Company indirectly, through its wholly-owned subsidiaries, holds approximately 86.82% of the entire number of issued shares of Chiun Mai Communication Systems, Inc., a company incorporated in Taiwan.

Save as disclosed above, none of the directors or chief executive of the Company had, as at 30 June 2017, 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 2017, 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	63.63%
Hon Hai (Notes)	Interest of a controlled corporation	5,081,034,525	63.63%

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), and Mr. HUANG Chin Hsien, an executive director of the Company, is a director of certain subsidiaries of Hon Hai.

Save as disclosed above, as at 30 June 2017, 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)* **OPTION SCHEME AND SHARE SCHEME**

During the six months ended 30 June 2017, no option was granted under the Option Scheme and no share was awarded under the Share Scheme.

Apart from the Option Scheme and the Share Scheme, at no time during the six months ended 30 June 2017 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 of the Company did not recommend the payment of an interim dividend for the six months ended 30 June 2017.

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 2017.

RESERVES

Movements in reserves of the Group during the six months ended 30 June 2017 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 2017 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 2017.

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 2017 to 30 June 2017.

The code provision contained in paragraph A.2.1 of the CG Code provides that the roles of the chairman and chief executive should be separate and should not be performed by the same individual.

OTHER INFORMATION *(Continued)*

CORPORATE GOVERNANCE *(Continued)*

However, Mr. TONG Wen-hsin, the Company's former Chairman and former Executive Director, had resigned from his positions within the Company with effect from 1 January 2017. Upon Mr. Tong's resignation, the Company has not been able to comply with the code provision contained in paragraph A.2.1 of the CG Code. The reasons for such deviation are set out below.

Since the resignation of Mr. Tong as the Chairman of the Company, the Company has been searching for the right candidate to fill the position of Chairman of the Company. However, given the importance of the role, the Board expects that it may take some time before the Company is able to find a suitable candidate to fulfill the role of Chairman. In light of the tremendous market challenges and the current uncertainties relating to the vacancy of the Chairman role, the Board considered that experienced leadership was of utmost importance and has resolved to adopt an interim arrangement by appointing Mr. CHIH Yu Yang, the current Chief Executive Officer, to act as the Acting Chairman with effect from 1 January 2017. Mr. Chih has been the Company's Executive Director and Chief Executive Officer since 28 August 2009 and 26 July 2012, respectively. In these positions, Mr. Chih has accumulated extensive knowledge and experience in both the Company and the industry. The Board believes that this interim arrangement not only is crucial to the continuation in the Group's implementation of business plans and formulation of business strategies, but also serves to avoid unnecessary speculation, confusion and instability that may be caused to the Group's shareholders, investors, customers, suppliers and business partners worldwide, thereby allowing the Company to have sufficient time for the selection and appointment of the replacement Chairman of the Company. Although the interim arrangement deviates from the relevant code provision, the Board considers that the interim arrangement will not impair the balance of power and authority between the Board and the management of the Company as three out of the seven Board members are the Independent Non-executive Directors and the Board meets regularly to consider major matters affecting the operations of the Group and all Directors are properly and promptly briefed on such matters with adequate, complete and reliable information. Furthermore, the Board believes that the circumstances justify the bases for adopting the interim arrangement which is in the best interest of the Company and its shareholders as a whole. In the spirit of better corporate governance, the Board will periodically review the effectiveness of this interim arrangement (and introduce further measures, if necessary) and, through the Company's nomination committee, will continue to use its best endeavours to find a suitable candidate to assume the duties as Chairman of the Company as soon as reasonably practicable thereby separating the roles of chairman and chief executive as prescribed under the code provision contained in paragraph A.2.1 of the CG Code.

On behalf of the Board
CHIH Yu Yang
Acting Chairman

Hong Kong, 11 August 2017