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Foxconn International Holdings Limited
富士康國際控股有限公司*

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 2038)

ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2012

The board of directors (the "Board") of Foxconn International Holdings Limited (the "Company") hereby announces the unaudited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2012 together with comparative figures for the previous corresponding period as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2012

		Six months ended	
		30.6.2012	30.6.2011
	NOTES	***US$'000***	*US$'000*
		(unaudited)	(unaudited)
Turnover	*4*	**2,504,095**	2,993,673
Cost of sales		**(2,541,272)**	(2,849,309)
Gross (loss) profit		**(37,177)**	144,364
Other income, gains and losses		**93,357**	98,738
Selling expenses		**(9,037)**	(13,066)
General and administrative expenses		**(110,108)**	(128,276)
Research and development expenses		**(94,429)**	(96,081)
Impairment loss recognised for property, plant and equipment	*9*	**(56,250)**	–
Interest expense on bank borrowings		**(6,544)**	(4,443)
Share of profits of associates		**323**	1,997
Share of loss of a jointly controlled entity		**(24)**	–
(Loss) profit before taxation		**(219,889)**	3,233
Taxation	*5*	**(4,239)**	(20,344)
Loss for the period	*6*	**(224,128)**	(17,111)

	NOTES	Six months ended 30.6.2012 US$'000 (unaudited)	30.6.2011 US$'000 (unaudited)
Other comprehensive (expense) income:			
Exchange differences arising on translation of foreign operations		**(27,171)**	97,817
Share of translation reserve of associates		**195**	227
Share of translation reserve of a jointly controlled entity		**(98)**	–
Reserves released upon loss of control over a subsidiary	*10*	**(86)**	–
Reserves released upon partial disposal of interests in an associate		**(341)**	–
Other comprehensive (expense) income for the period		**(27,501)**	98,044
Total comprehensive (expense) income for the period		**(251,629)**	80,933
Loss for the period attributable to:			
Owners of the Company		**(226,069)**	(17,648)
Non-controlling interests		**1,941**	537
		(224,128)	(17,111)
Total comprehensive (expense) income attributable to:			
Owners of the Company		**(253,328)**	79,578
Non-controlling interests		**1,699**	1,355
		(251,629)	80,933
Loss per share	*8*		
Basic		**(US3.10 cents)**	(US0.25 cents)
Diluted		**(US3.10 cents)**	(US0.25 cents)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2012

	NOTES	**30.6.2012 US$'000 (unaudited)**	31.12.2011 US$'000 (audited)
Non-current assets			
Property, plant and equipment	*9*	**1,257,216**	1,457,039
Prepaid lease payments		**50,719**	51,845
Available-for-sale investments		**87**	90
Interests in associates	*11*	**40,328**	45,481
Interest in a jointly controlled entity	*12*	**4,083**	–
Deferred tax assets	*13*	**26,540**	21,326
Deposits for acquisition of prepaid lease payments		**30,150**	30,264
Deposits for acquisition of property, plant and equipment		**61**	456
		1,409,184	1,606,501
Current assets			
Inventories		**494,818**	608,354
Trade and other receivables	*14*	**1,133,531**	1,411,700
Bank deposits		**439,491**	409,681
Bank balances and cash		**1,997,375**	1,512,461
		4,065,215	3,942,196
Assets classified as held for sale	*15*	**41,679**	62,923
		4,106,894	4,005,119
Current liabilities			
Trade and other payables	*16*	**1,143,405**	1,215,434
Bank borrowings	*17*	**703,900**	483,245
Provision	*18*	**30,382**	28,395
Tax payable		**69,711**	81,222
		1,947,398	1,808,296
Net current assets		**2,159,496**	2,196,823
Total assets less current liabilities		**3,568,680**	3,803,324

	NOTES	30.6.2012 US$'000 (unaudited)	31.12.2011 US$'000 (audited)
Capital and reserves			
Share capital		**292,470**	288,987
Reserves		**3,213,962**	3,451,022
Equity attributable to owners of the Company		**3,506,432**	3,740,009
Non-controlling interests		**20,384**	18,685
Total equity		**3,526,816**	3,758,694
Non-current liabilities			
Deferred tax liabilities	*13*	**7,704**	8,798
Deferred income	*19*	**34,160**	35,832
		41,864	44,630
		3,568,680	3,803,324

Notes:

1. INDEPENDENT REVIEW

The interim results for the six months ended 30 June 2012 are unaudited, but have been reviewed by the Company's auditors, Deloitte Touche Tohmatsu, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. The unmodified review report is included in the interim report to be sent to the Company's shareholders.

2. BASIS OF PREPARATION

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

3. PRINCIPAL ACCOUNTING POLICIES

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

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2012 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2011. In addition, during the current interim period, the Group has interest in a jointly controlled entity for the first time. The accounting policy of the jointly controlled entity is described below.

Joint ventures

Jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the condensed consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are initially recognised in the condensed consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the jointly controlled entities. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of a jointly controlled entity recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

In addition, in the current interim period, the Group has applied, for the first time, the following amendments to International Financial Reporting Standards ("IFRSs") issued by the IASB.

Amendments to IFRS 7	Financial instruments: Disclosures – Transfers of financial assets
Amendments to IAS 12	Deferred tax: Recovery of underlying assets

The application of the above 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.

4. SEGMENT INFORMATION

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

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

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

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

	Six months ended	
	30.6.2012	30.6.2011
	US$'000	*US$'000*
	(unaudited)	(unaudited)
Segment revenue (external sales)		
Asia	**1,436,406**	1,609,423
Europe	**487,774**	593,758
America	**579,915**	790,492
Total	**2,504,095**	2,993,673
Segment (loss) profit		
Asia	**(10,622)**	101,283
Europe	**(1,781)**	23,417
America	**(3,521)**	36,648
	(15,924)	161,348
Other income, gains and losses	**61,242**	68,688
General and administrative expenses	**(110,108)**	(128,276)
Research and development expenses	**(94,429)**	(96,081)
Impairment loss recognised for property, plant and equipment	**(54,425)**	–
Interest expense on bank borrowings	**(6,544)**	(4,443)
Share of profits of associates	**323**	1,997
Share of loss of a jointly controlled entity	**(24)**	–
(Loss) profit before taxation	**(219,889)**	3,233

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

5. TAXATION

	Six months ended	
	30.6.2012	30.6.2011
	US$'000	*US$'000*
	(unaudited)	(unaudited)
Current tax	**12,590**	11,446
(Over)underprovision in prior periods	**(1,909)**	3,503
	10,681	14,949
Deferred tax *(note 13)*		
– Current period	**(6,442)**	5,210
– Change in tax rate	**–**	185
	4,239	20,344

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in nor is derived from Hong Kong.

Tax charge mainly consists of income tax in the People's Republic of China ("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 certain PRC subsidiaries increases from 18% to 25% progressively over 5 years from 1 January 2008 onwards. The applicable tax rate for current year was 25% (2011: 24%). Pursuant to the relevant laws and regulations in the PRC, two of the Company's PRC subsidiaries are exempted from PRC enterprise income tax ("EIT") for two years starting from year 2008 and 2009, respectively, which was their first profit-making year, followed by a 50% reduction for next three years. One of the Company's subsidiaries was awarded the Advanced – Technology Enterprise Certificate and entitled for a tax reduction from 25% to 15% for three years commencing from 1 January 2009 and can be renewed in every 3 years. During the current period, the relevant subsidiary has successfully renewed the certificate and continues to entitle a reduced tax rate of 15% from 2012 to 2014.

Except as described above, other PRC subsidiaries are subject to EIT at 25% (2011: 25%).

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

6. LOSS FOR THE PERIOD

	Six months ended	
	30.6.2012	30.6.2011
	US$'000	*US$'000*
	(unaudited)	(unaudited)
Loss for the period has been arrived at after charging (crediting):		
Write down (reversals of write down) of inventories	**24,736**	(4,734)
Amortisation of prepaid lease payments (included in general and administrative expenses)	**561**	1,158
Cost of inventories recognised as expense	**2,511,045**	2,844,754
Provision for warranty	**5,491**	9,289
Depreciation of property, plant and equipment	**108,059**	127,643
Depreciation of investment properties	**–**	798
(Reversals of) impairment loss recognised in respect of trade receivables	**(4,733)**	3,462
Interest income from bank deposits	**(27,295)**	(12,973)
Gain on partial disposal of an associate *(note 11)*	**(2,685)**	–
Gain on loss of control over a subsidiary *(note 10)*	**(19)**	–

7. DIVIDEND

No dividend was paid, declared or proposed for the six months ended 30 June 2012 (for the six months ended 30 June 2011: Nil). The directors do not recommend the payment of an interim dividend.

8. LOSS PER SHARE

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

	Six months ended	
	30.6.2012	30.6.2011
	US$'000	*US$'000*
	(unaudited)	(unaudited)
Loss		
Loss for the purposes of calculating basic and diluted loss per share	**(226,069)**	(17,648)
Number of shares		
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	**7,298,516,893**	7,198,833,690

The computation of diluted loss per share for the six months ended 30 June 2012 and 2011 does not assume the exercise of the Company's share options and share awards as the exercise of the outstanding options and awards would result in a decrease in the loss per share for both periods.

9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the current period, the Group acquired property, plant and equipment of approximately US$26,368,000 (2011: US$99,416,000).

In addition, the Group disposed of certain property, plant and equipment with a carrying amount of US$49,673,000 (2011: US$19,406,000) for proceeds of US$45,310,000 (2011: US$18,133,000), resulting in a loss on disposal of US$4,363,000 (2011: US$1,273,000).

The Group reviews property, plant and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. As at 30 June 2012, the management assessed the recoverable amounts of the property, plant and equipment as a result of the deteriorating market demand and changing economic environment. Impairment of property, plant and equipment is measured by comparing its carrying amount to its recoverable amount which was determined based on its value in use and estimated by reference to the projected discounted cash flows that were expected to generate from the property, plant and equipment. As a result of the assessment, an impairment loss of US$56,250,000 (2011: Nil) had been recognised during the period ended 30 June 2012.

10. LOSS OF CONTROL OVER A SUBSIDIARY

During the current period, the Company entered into an agreement with Ways Technical Corp., Ltd. (“Ways”), an associate of the Group, that Ways’ wholly-owned subsidiary namely 精泉科技股份有限公司 (“Ways Subsidiary”) shall subscribe for 12,100,000 shares in an indirectly wholly-owned subsidiary of the Company, namely 位吉股份有限公司 (also known as Ways Transworld Inc.) (“Ways Transworld”), for a consideration of NTD121,000,000 (equivalent to approximately US$4,138,000). Ways Transworld is principally engaged in the business of designing and manufacturing plastic molds for handheld devices, such as mobile phones and personal navigation devices. Upon completion of the transaction in May 2012, the Group lost its control on Ways Transworld but has joint control over Ways Transworld as all of the major strategic financial and operating decisions require unanimous consent of the Group and Ways Subsidiary. Accordingly, Ways Transworld was regarded as a jointly controlled entity of the Group after the transaction and is accounted for using the equity method (see note 12 for details).

The net assets of Ways Transworld derecognised at the date when control over Ways Transworld was lost were as follows:

	US$'000
Property, plant and equipment	**2,032**
Trade and other receivables	**4,357**
Amounts due from related parties	**25**
Inventories	**943**
Bank balances and cash	**3,860**
Trade and other payables	**(1,168)**
Amounts due to related parties	**(5,777)**
Net assets disposed of	**4,272**
Fair value of the interest in a jointly controlled entity	**(4,205)**
Cumulative exchange differences in respect of the net assets of the subsidiary reclassified from equity to profit or loss on loss of control of a subsidiary	**(86)**
Gain on loss of control over a subsidiary	**(19)**
Net cash outflow arising on deemed disposal:	
Bank balances and cash disposed of	**(3,860)**

The fair value of the Group's retained interests in Ways Transworld was determined by the directors of the Company, taking into account the cash consideration of US$4,138,000 injected by Ways Subsidiary.

11. INTERESTS IN ASSOCIATES

	30.6.2012	31.12.2011
	US$'000	*US$'000*
	(unaudited)	(audited)
Cost of investments in associates, less impairment		
Listed in Taiwan	**25,698**	30,108
Unlisted	**6,935**	6,935
Share of post-acquisition profits and other comprehensive income, net of dividend received	**7,695**	8,438
	40,328	45,481

During the current period, the Group disposed of certain interests in an associate, namely Ways, a limited company established in Taiwan and its shares being traded on the Taiwan OTC Exchange, through open market trading at the Taiwan OTC Exchange for a total cash proceed of US$8,015,000. Accordingly, the Group's interest in Ways decreased from 20.06% to 17.12% and gain on partial disposal of an associate of US$2,685,000 was recognised in profit or loss and included in other income during the six months ended 30 June 2012. In the opinion of the directors, the Group is able to exercise significant influence over Ways because it has the right to appoint two out of six directors of Ways.

12. INTEREST IN A JOINTLY CONTROLLED ENTITY

	30.6.2012
	US$'000
Cost of unlisted investment in a jointly controlled entity	**4,205**
Share of post-acquisition loss and other comprehensive income	**(122)**
	4,083

At 30 June 2012, the Group had interests in the following significant jointly controlled entity:

Name of jointly controlled entity	Form of entity	Place/country of incorporation/ registration	Principal place of operation	Class of shares held	Proportion of nominal value of issued capital held by the Group 2012	Proportion of voting power held 2012	Principal activity
位吉股份有限公司 (also known as Ways Transworld Inc.)	Limited company	Taiwan	Taiwan	Ordinary	50%	50%	Designing and manufacturing plastic molds for handheld devices

13. DEFERRED TAXATION

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

	Allowances for inventories, trade and other receivables	Warranty provision	Accelerated tax depreciation	Tax losses	Deferred income	Others	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
At 1 January 2011	(5,126)	(2,261)	3,916	(4,376)	(8,634)	(8,828)	(25,309)
Charge (credit) to profit or loss for the period	100	601	(277)	2,690	(93)	2,189	5,210
Effect of change in tax rate	17	16	87	(65)	–	130	185
Exchange adjustments	(93)	(69)	6	(36)	(250)	(83)	(525)
At 30 June 2011	(5,102)	(1,713)	3,732	(1,787)	(8,977)	(6,592)	(20,439)
At 1 January 2012	**(1,704)**	**(1,580)**	**3,105**	**(6)**	**(8,638)**	**(3,705)**	**(12,528)**
(Credit) charge to profit or loss for the period	**(4,027)**	**86**	**(314)**	**(3,538)**	**(182)**	**1,533**	**(6,442)**
Exchange adjustments	**166**	**6**	**(203)**	**10**	**32**	**123**	**134**
At 30 June 2012	**(5,565)**	**(1,488)**	**2,588**	**(3,534)**	**(8,788)**	**(2,049)**	**(18,836)**

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

	30.6.2012	31.12.2011
	US$'000	*US$'000*
	(unaudited)	(audited)
Deferred tax assets	**(26,540)**	(21,326)
Deferred tax liabilities	**7,704**	8,798
	(18,836)	(12,528)

At 30 June 2012, the Group has unused tax losses of US$956,228,000 (31.12.2011: US$781,610,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately US$217,000 (31.12.2011: US$57,000) of such losses. No deferred tax asset has been recognised in respect of the unused tax losses of US$956,011,000 (31.12.2011: US$781,553,000) 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 2017.

Under the Law of the PRC on Enterprise Income Tax, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. No liability has been recognised in respect of temporary differences associated with undistributed earnings of subsidiaries from 1 January 2008 onwards of approximately US$790,844,000 (31.12.2011: US$922,366,000) 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.

14. TRADE AND OTHER RECEIVABLES

	30.6.2012	31.12.2011
	US$'000	*US$'000*
	(unaudited)	(audited)
Trade receivables	**936,845**	1,193,461
Other receivables, deposits and prepayments	**196,686**	218,239
	1,133,531	1,411,700

The Group normally allows an average credit period of 30 to 90 days to its trade customers.

The following is an aged analysis of trade receivables, from invoice date, at the end of the reporting period:

	30.6.2012	31.12.2011
	US$'000	*US$'000*
	(unaudited)	(audited)
0 – 90 days	**917,408**	1,177,063
91 – 180 days	**12,280**	8,247
181 – 360 days	**4,150**	3,772
Over 360 days	**3,007**	4,379
	936,845	1,193,461

15. ASSETS CLASSIFIED AS HELD FOR SALE

On 8 July 2011, Shenzhen Futaihong Precision Industrial Co., Ltd. ("FTH Precision"), a wholly-owned subsidiary of the Company, and Hong Fu Jin Precision Industry (Shen Zhen) Co., Ltd. ("HFJ Precision"), a wholly-owned subsidiary of Hon Hai Precision Industry Co. Ltd. ("Hon Hai"), the ultimate holding company of the Company, entered into an equity transfer agreement (the "Transfer") with an independent third party (the "Purchaser"), pursuant to which, among other things, FTH Precision and HFJ Precision have agreed to sell in a series and the Purchaser has agreed to purchase in a series the entire equity interest of 深圳市富泰宏光明房地產有限公司 (also known as Shenzhen Futaihong Guang Ming Property Co., Ltd.) (present name being 深圳市金城光明房地產有限公司) ("Guang Ming") for a total cash consideration of RMB878,750,000 (equivalent to approximately US$136,382,000). Upon and subject to the terms and conditions set out in the said equity transfer agreement (details of which are stipulated in the Company's announcement dated 8 July 2011), FTH Precision and HFJ Precision held approximately 70.12% and 29.88% in the equity interests of Guang Ming, respectively, before the Transfer. Pursuant to the said equity transfer agreement, FTH Precision will be entitled to receive RMB616,180,000 (equivalent to approximately US$95,631,000) in aggregate upon disposal of all the Group's interest in Guang Ming to the Purchaser by 31 December 2012.

Up to 31 December 2011, the Group disposed of 25% equity interest in Guang Ming to the Purchaser and received cash consideration of RMB219,687,000 (equivalent to approximately US$34,095,000) and deposit of RMB130,313,000 (equivalent to approximately US$20,224,000) for the subsequent disposal. The Group lost control upon disposal of 25% equity interest in Guang Ming from 70.12% to 45.12% but is still able to exercise significant influence over Guang Ming as at 31 December 2011.

During the six months ended 30 June 2012, the Group further disposed of 15.12% equity interest in Guang Ming to the Purchaser with consideration of RMB132,867,000 (equivalent to approximately US$21,006,000). It was settled by cash received during the current period of RMB102,554,000 (equivalent to approximately US$16,592,000) and a deposit received in prior year of RMB30,313,000 (equivalent to approximately US$4,414,000). In addition, during the current period, the Group received a deposit of RMB84,876,000 (equivalent to approximately US$13,419,000) for the subsequent disposal, while the remaining balance of the deposit of RMB100,000,000 (equivalent to approximately US$15,810,000) received in prior year was refunded to the Purchaser.

At 30 June 2012, the remaining interest held in Guang Ming by the Group was 30% (31.12.2011: 45.12%), which is regarded as an interest in an associate and is expected to be disposed of by 31 December 2012. Accordingly, the remaining interest in Guang Ming was reclassified as held for sale and is separately presented in the condensed consolidated statement of financial position.

16. TRADE AND OTHER PAYABLES

	30.6.2012	31.12.2011
	US$'000	*US$'000*
	(unaudited)	(audited)
Trade payables	**794,088**	880,956
Accruals and other payables	**335,898**	314,254
Deposit received	**13,419**	20,224
	1,143,405	1,215,434

The following is an aged analysis of trade payables, from invoice date, at the end of the reporting period:

	30.6.2012	31.12.2011
	US$'000	*US$'000*
	(unaudited)	(audited)
0 – 90 days	**782,317**	863,521
91 – 180 days	**6,624**	6,434
181 – 360 days	**1,833**	6,901
Over 360 days	**3,314**	4,100
	794,088	880,956

17. BANK BORROWINGS

	30.6.2012	31.12.2011
	US$'000	*US$'000*
	(unaudited)	(audited)
Bank loans	**703,900**	483,245
Analysis of bank borrowings by currency:		
US$	**691,033**	477,163
Euro	**4,863**	6,082
Japanese Yen	**8,004**	–
	703,900	483,245

The bank borrowings as at the end of the reporting period are unsecured, repayable within one year and carry interest at fixed interest rates ranging from 0.96% to 3.55% (31.12.2011: 1.25% to 4.37%) per annum.

18. PROVISION

	Warranty provision *US$'000*
At 1 January 2011	28,340
Exchange adjustments	721
Provision for the year	6,819
Utilisation of provision	(7,467)
Eliminated on disposal of a subsidiary	(18)
At 31 December 2011	28,395
Exchange adjustments	32
Provision for the period	5,491
Utilisation of provision	(3,536)
At 30 June 2012	30,382

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.

19. DEFERRED INCOME

	30.6.2012 ***US$'000*** **(unaudited)**	31.12.2011 *US$'000* (audited)
Government subsidies	**34,160**	35,182
Sale and leaseback transaction	**–**	650
	34,160	35,832

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

MANAGEMENT DISCUSSION AND ANALYSIS

Review of Results and Operations

For the six-month period ended 30 June 2012, the Group recorded a 16.37% year-on-year decrease in consolidated turnover of US$2,504 million (2011: US$2,994 million). Loss for the period attributable to owners of the Company was US$226 million compared to a loss of US$18 million for the same period last year. Basic loss-per-share for the period was US3.1 cents.

During the first six months of 2012, we saw major changes in the handset ecosystem triggered by the end market volatility due to the European and global economic slow-down, the emergence of new service/applications centric business models and resulting in our customers' continuous struggle in their market share protection battle. Market dynamics shifted drastically and created tough challenges for some industry players as well as the Group. Though we spent major efforts in soliciting new customers' businesses and streamlining our operations, it was clear that our total capacity was still over our demand level.

In line with the consolidation of our major PRC manufacturing capabilities in our northern sites by the end of 2011, further consolidation continued in our Shenzhen site with re-locations of teams and business into our northern PRC sites to counter continuous business and market dynamics and challenges. Through such consolidation, re-organization of our business operations into smaller and responsive teams had continued. We had also continued to explore and develop smart phone ODM business with our existing and new customers. While we believe that we still remained as the major supply chain partner to our existing customers, our aggressive business development efforts remain a top priority in providing more services in the value chain to our customers and getting new businesses.

Liquidity and Financial Resources

As at 30 June 2012, the Group had a cash balance of US$1,997 million. The cash balance is expected to be able to finance our operations. Our gearing ratio, expressed as a percentage of interest bearing external borrowings of US$704 million (2011: US$483 million) over total assets of US$5,516 million (2011: US$5,612 million), was 12.76% (2011: 8.61%). External borrowings increased in the first half of 2012 mainly to meet the operating cash demand; most of the borrowings were denominated in US Dollars and some of them were denominated in Japanese Yen and Euro. The Group borrowed according to real demand and there were no bank committed borrowing facilities and no seasonality of borrowing requirements. The outstanding interest bearing external borrowings were all at fixed rate ranging from 0.96% to 3.55% per annum with original maturity of one to three months.

Net cash from operating activities for the six months ended 30 June 2012 was US$251 million.

Net cash from investing activities for the six months ended 30 June 2012 was US$3 million, of which, mainly, US$26 million represented the expenditures on property, plant and equipment related to the facilities in our major sites in the PRC, US$34 million represented placement in bank deposit, US$17 million represented consideration received for disposals of interest in Guang Ming, US$13 million represented deposits received in respect of assets held for sale, US$4 million represented the net cash outflow from loss of control over a subsidiary, US$16 million represented deposits refunded in respect of assets held for sale, US$45 million represented proceeds on disposal of property, plant and equipment, and US$8 million represented net proceeds on partial disposal of an associate.

Net cash from financing activities for the six months ended 30 June 2012 was US$235 million, primarily due to net increase in bank loans of US$221 million and proceeds of US$14 million from the issue of shares to employees for such period.

Exposures to Currency Risk and Related Hedges

In order to mitigate foreign currency risks, the Group actively utilized 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 foreign currency forward contracts (usually with tenor less than 6 months) to hedge the currency risk resulting from its short-term bank loans (usually with tenors less than 6 months) denominated in foreign currencies. Also, the Group, from time to time, utilized a variety of foreign currency forward contracts to hedge its exposure to foreign currencies.

Capital Commitment

As at 30 June 2012, the capital commitment of the Group was US$32.7 million (2011: US$67.1 million). Usually, the capital commitment will be funded by cash generated from operations.

Pledge of Assets

A subsidiary of the Company has pledged its corporate assets of approximately US$1.6 million (2011: US$1.7 million) to secure general banking facilities granted to the Group.

Outlook

Looking forward, challenging economic conditions around the world may continue to cast uncertainties in our business environment. The management team remains cautious over the future handset market conditions in 2012. We will continue to take actions on resources optimization and operation cost control in the remaining of the year, as well as enhancing the Group's value-added offerings for the new customers. Notwithstanding our continuous endeavours, at present, we still see tremendous challenges to restore our financial position to profitability by the end of 2012.

Our strategy is to focus on new customers in smart phone sector. We believe our R&D investment in past years will be instrumental in our future endeavours.

Employees

As at 30 June 2012, the Group had a total of 75,487 (2011: 98,868) employees. Total staff costs incurred during the six months ended 30 June 2012 amounted to US$251 million (2011: US$272 million). The Group offers a comprehensive remuneration policy which is reviewed by the management on a regular basis.

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2012.

AUDIT COMMITTEE

The Company has established an audit committee in accordance with the requirements of the Listing Rules, particularly the Code on Corporate Governance Practices (the "CCGP") during the period from 1 January 2012 to 31 March 2012 and the Corporate Governance Code (the "CG Code") during the period from 1 April 2012 to 30 June 2012 as set out in Appendix 14 to the Listing Rules. Its primary duties are to review the Group's financial reporting process and internal control system, nominate and monitor external auditors and provide advice and comments to the Board. The audit committee is comprised of three non-executive directors, two of whom are independent non-executive directors (among whom one of the independent non-executive directors has the appropriate professional qualifications or accounting or related financial management expertise as required under the Listing Rules).

The audit committee has reviewed the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2012 and the Company's interim report for such six-month period.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (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 2012.

CORPORATE GOVERNANCE

The Company has complied with all the code provisions set out in the CCGP during the period from 1 January 2012 to 31 March 2012 and the CG Code during the period from 1 April 2012 to 30 June 2012.

As an enhancement of the Company's corporate governance practices and in full compliance with the code provisions set out in the CCGP during the period from 1 January 2012 to 31 March 2012 and the CG Code during the period from 1 April 2012 to 30 June 2012, the roles of chairman and chief executive officer of the Company were separated with effect from 1 January 2012.

Moreover, the Company has established two additional committees of its board of directors namely the nomination committee and the corporate governance committee with their respective terms of reference, and has formulated a number of internal policies and procedures, including the procedures for shareholders to propose candidates for election as a director of the Company, the shareholders communication policy and the memorandum on shareholder rights.

PUBLICATION OF INTERIM REPORT

The interim report 2012 of the Company containing all the information required by the Listing Rules will be despatched to the shareholders of the Company and made available on the websites of The Stock Exchange of Hong Kong Limited and the Company respectively in due course.

By Order of the Board
Chin Wai Leung, Samuel
Chairman

Hong Kong, 27 August 2012

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

* *for identification purposes only*