# FIH® 富智康™

# FIH Mobile Limited

(formerly known as Foxconn International Holdings Limited)

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2038

# Interim Report 2013

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# CORPORATE INFORMATION

## FIH MOBILE LIMITED
**(formerly known as Foxconn International Holdings Limited) (the "Company")**

### EXECUTIVE DIRECTORS
TONG Wen-hsin *(Chairman)*
CHIH Yu Yang *(Chief Executive Officer)*
LEE Jer Sheng

### NON-EXECUTIVE DIRECTOR
LEE Kuo Yu

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

### COMPANY SECRETARY
LAW Sai Hay

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

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

### PRINCIPAL PLACE OF BUSINESS IN HONG KONG
8th Floor, Peninsula Tower
538 Castle Peak Road
Cheung Sha Wan
Kowloon
Hong Kong

### AUDITORS
Deloitte Touche Tohmatsu

### LEGAL ADVISORS
Clifford Chance, Hong Kong
Mayer Brown JSM, Hong Kong

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

### PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE
Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

### HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE
Computershare Hong Kong Investor Services Limited
46th Floor, Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

### STOCK CODE
2038

Deloitte.
德勤

# REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

TO THE BOARD OF DIRECTORS OF FIH MOBILE LIMITED
(FORMERLY KNOWN AS FOXCONN INTERNATIONAL HOLDINGS 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 30, which comprise the condensed consolidated statement of financial position as of 30 June 2013 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34"). The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Conclusion

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

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong
12 August 2013

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*FOR THE SIX MONTHS ENDED 30 JUNE 2013*

| | | Six months ended | |
|---|---|---|---|
| | | **30.6.2013** | 30.6.2012 |
| | *NOTES* | ***US$'000*** | *US$'000* |
| | | **(unaudited)** | (unaudited) |
| Turnover | *3* | **2,476,295** | 2,504,095 |
| Cost of sales | | **(2,375,858)** | (2,541,272) |
| Gross profit (loss) | | **100,437** | (37,177) |
| Other income, gains and losses | | **117,606** | 93,357 |
| Selling expenses | | **(9,443)** | (9,037) |
| General and administrative expenses | | **(89,597)** | (110,108) |
| Research and development expenses | | **(76,247)** | (94,429) |
| Impairment loss recognised for property, plant and equipment | *8* | **–** | (56,250) |
| Interest expense on bank borrowings | | **(2,807)** | (6,544) |
| Share of (loss) profits of associates | | **(65)** | 323 |
| Share of profits (loss) of joint ventures | | **485** | (24) |
| Profit (loss) before taxation | | **40,369** | (219,889) |
| Income tax expense | *4* | **(23,134)** | (4,239) |
| Profit (loss) for the period | *5* | **17,235** | (224,128) |
| Other comprehensive income (expense): | | | |
| *Items that may be reclassified subsequently to profit or loss:* | | | |
| Exchange differences arising on translation of foreign operations | | **10,936** | (27,171) |
| Share of translation reserve of associates | | **(365)** | 195 |
| Share of translation reserve of joint ventures | | **(92)** | (98) |
| Reserves released upon loss of control over a subsidiary | *9* | **–** | (86) |
| Reserves released upon partial disposal of interests in an associate | | **–** | (341) |
| Other comprehensive income (expense) for the period | | **10,479** | (27,501) |
| Total comprehensive income (expense) for the period | | **27,714** | (251,629) |

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

*FOR THE SIX MONTHS ENDED 30 JUNE 2013*

| | | Six months ended | |
|---|---|---|---|
| | | **30.6.2013** | 30.6.2012 |
| | *NOTES* | ***US$'000*** | *US$'000* |
| | | **(unaudited)** | (unaudited) |
| Profit (loss) for the period attributable to: | | | |
| Owners of the Company | | **17,659** | (226,069) |
| Non-controlling interests | | **(424)** | 1,941 |
| | | **17,235** | (224,128) |
| Total comprehensive income (expense) attributable to: | | | |
| Owners of the Company | | **28,478** | (253,328) |
| Non-controlling interests | | **(764)** | 1,699 |
| | | **27,714** | (251,629) |
| Earnings (loss) per share | *7* | | |
| Basic | | **US0.24 cents** | (US3.10 cents) |
| Diluted | | **US0.24 cents** | (US3.10 cents) |

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*AT 30 JUNE 2013*

| | NOTES | **30.6.2013** **US$'000** **(unaudited)** | 31.12.2012 US$'000 (audited) |
|---|---|---|---|
| Non-current assets | | | |
| Property, plant and equipment | 8 | **1,027,499** | 1,094,471 |
| Prepaid lease payments | | **48,537** | 49,378 |
| Available-for-sale investments | | **36** | 85 |
| Interests in associates | 10 | **31,511** | 31,940 |
| Interests in joint ventures | 11 | **7,194** | 3,741 |
| Deferred tax assets | 12 | **37,325** | 41,127 |
| Deposits for acquisition of prepaid lease payments | | **30,855** | 30,340 |
| Deposits for acquisition of property, plant and equipment | | **241** | 37 |
| | | **1,183,198** | 1,251,119 |
| Current assets | | | |
| Inventories | | **276,344** | 347,918 |
| Trade and other receivables | 13 | **1,047,195** | 1,132,308 |
| Bank deposits | | **537,216** | 440,133 |
| Bank balances and cash | | **2,265,831** | 1,916,998 |
| | | **4,126,586** | 3,837,357 |
| Current liabilities | | | |
| Trade and other payables | 15 | **1,076,894** | 1,203,455 |
| Bank borrowings | 16 | **520,621** | 214,901 |
| Provision | 17 | **29,406** | 30,211 |
| Tax payable | | **77,909** | 70,781 |
| | | **1,704,830** | 1,519,348 |
| Net current assets | | **2,421,756** | 2,318,009 |
| Total assets less current liabilities | | **3,604,954** | 3,569,128 |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

*AT 30 JUNE 2013*

| | NOTES | 30.6.2013 US$'000 (unaudited) | 31.12.2012 US$'000 (audited) |
|---|---|---|---|
| Capital and reserves | | | |
| Share capital | 18 | **298,318** | 292,493 |
| Reserves | | **3,253,663** | 3,223,304 |
| Equity attributable to owners of the Company | | **3,551,981** | 3,515,797 |
| Non-controlling interests | | **9,994** | 10,758 |
| Total equity | | **3,561,975** | 3,526,555 |
| Non-current liabilities | | | |
| Deferred tax liabilities | 12 | **9,837** | 9,090 |
| Deferred income | 19 | **33,142** | 33,483 |
| | | **42,979** | 42,573 |
| | | **3,604,954** | 3,569,128 |

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*FOR THE SIX MONTHS ENDED 30 JUNE 2013*

| | Attributable to owners of the Company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium | Special 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* |
| Balance at 1 January 2012 (audited) | 288,987 | 813,391 | 15,514 | – | 161,707 | 433,679 | 45,433 | 1,981,298 | 3,740,009 | 18,685 | 3,758,694 |
| Exchange differences arising on translation of foreign operations | – | – | – | – | – | (26,929) | – | – | (26,929) | (242) | (27,171) |
| Share of translation reserve of associates | – | – | – | – | – | 195 | – | – | 195 | – | 195 |
| Share of translation reserve of a joint venture | – | – | – | – | – | (98) | – | – | (98) | – | (98) |
| Reserves released upon loss of control over a subsidiary | – | – | – | – | – | (86) | – | – | (86) | – | (86) |
| Reserves released upon partial disposal of interests in an associate | – | – | – | – | – | (341) | – | – | (341) | – | (341) |
| Other comprehensive expense for the period | – | – | – | – | – | (27,259) | – | – | (27,259) | (242) | (27,501) |
| (Loss) profit for the period | – | – | – | – | – | – | – | (226,069) | (226,069) | 1,941 | (224,128) |
| Total comprehensive (expense) income for the period | – | – | – | – | – | (27,259) | – | (226,069) | (253,328) | 1,699 | (251,629) |
| Issue of ordinary shares under Option Scheme and Share Scheme | 3,483 | 49,734 | – | – | – | – | (39,704) | – | 13,513 | – | 13,513 |
| Recognition of equity-settled share-based payments | – | – | – | – | – | – | 8,929 | – | 8,929 | – | 8,929 |
| Payment made for equity-settled share-based payments | – | – | – | – | – | – | (2,691) | – | (2,691) | – | (2,691) |
| Transfer to legal reserve | – | – | – | – | 3,531 | – | – | (3,531) | – | – | – |
| Transfer *(note)* | – | – | – | – | – | – | (1,244) | 1,244 | – | – | – |
| Balance at 30 June 2012 (unaudited) | 292,470 | 863,125 | 15,514 | – | 165,238 | 406,420 | 10,723 | 1,752,942 | 3,506,432 | 20,384 | 3,526,816 |

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

*FOR THE SIX MONTHS ENDED 30 JUNE 2013*

| | Attributable to owners of the Company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium | Special 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* |
| Balance at 1 January 2013 (audited) | 292,493 | 863,432 | 15,514 | (3,159) | 165,293 | 443,836 | 75,750 | 1,662,638 | 3,515,797 | 10,758 | 3,526,555 |
| Exchange differences arising on translation of foreign operations | – | – | – | – | – | 11,276 | – | – | 11,276 | (340) | 10,936 |
| Share of translation reserve of associates | – | – | – | – | – | (365) | – | – | (365) | – | (365) |
| Share of translation reserve of joint ventures | – | – | – | – | – | (92) | – | – | (92) | – | (92) |
| Other comprehensive income (expense) for the period | – | – | – | – | – | 10,819 | – | – | 10,819 | (340) | 10,479 |
| Profit (loss) for the period | – | – | – | – | – | – | – | 17,659 | 17,659 | (424) | 17,235 |
| Total comprehensive income (expense) for the period | – | – | – | – | – | 10,819 | – | 17,659 | 28,478 | (764) | 27,714 |
| Issue of ordinary shares under Option Scheme and Share Scheme | 5,825 | 63,641 | – | – | – | – | (66,429) | – | 3,037 | – | 3,037 |
| Recognition of equity-settled share-based payments | – | – | – | – | – | – | 7,315 | – | 7,315 | – | 7,315 |
| Payment made for equity-settled share-based payments | – | – | – | – | – | – | (2,646) | – | (2,646) | – | (2,646) |
| Transfer to legal reserve | – | – | – | – | 929 | – | – | (929) | – | – | – |
| Transfer *(note)* | – | – | – | – | – | – | (455) | 455 | – | – | – |
| Balance at 30 June 2013 (unaudited) | 298,318 | 927,073 | 15,514 | (3,159) | 166,222 | 454,655 | 13,535 | 1,679,823 | 3,551,981 | 9,994 | 3,561,975 |

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

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

*FOR THE SIX MONTHS ENDED 30 JUNE 2013*

| | NOTES | Six months ended 30.6.2013 US$'000 (unaudited) | 30.6.2012 US$'000 (unaudited) |
|---|---|---|---|
| Net cash from operating activities | | **139,471** | 250,958 |
| Investing activities | | | |
| Net increase in bank deposits for investing purpose | | **(100,030)** | (34,377) |
| Purchase of property, plant and equipment | | **(29,896)** | (25,961) |
| Capital contribution to a joint venture | | **(3,060)** | – |
| Deposits paid for acquisition of property, plant and equipment | | **(206)** | (1) |
| Proceeds from disposal of property, plant and equipment | | **13,476** | 45,310 |
| Proceeds from disposal of available-for-sale investments | | **21** | – |
| Net proceeds on partial disposal of an associate | *10* | **–** | 8,015 |
| Net cash outflow from loss of control over a subsidiary | *9* | **–** | (3,860) |
| Consideration received for disposals of assets classified as held for sale | *14* | **–** | 16,592 |
| Deposits received in respect of assets classified as held for sale | *14* | **–** | 13,419 |
| Refunded deposits received in respect of assets classified as held for sale | *14* | **–** | (15,810) |
| Net cash (used in) from investing activities | | **(119,695)** | 3,327 |
| Financing activities | | | |
| Bank borrowings raised | | **1,614,041** | 1,729,278 |
| Bank borrowings repaid | | **(1,304,831)** | (1,508,171) |
| Proceeds from issue of new shares | | **3,037** | 13,513 |
| Net cash from financing activities | | **312,247** | 234,620 |
| Net increase in cash and cash equivalents | | **332,023** | 488,905 |
| Cash and cash equivalents at 1 January | | **1,916,998** | 1,512,461 |
| Effect of foreign exchange rate changes | | **16,810** | (3,991) |
| Cash and cash equivalents as at 30 June, representing bank balances and cash | | **2,265,831** | 1,997,375 |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*FOR THE SIX MONTHS ENDED 30 JUNE 2013*

## 1. BASIS OF PREPARATION

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

The English name of the Company has been changed from "Foxconn International Holdings Limited" to "FIH Mobile Limited" with effect from 30 May 2013, and the Company's adoption of its formal Chinese name of "富智康集團有限公司" has also become effective on the same date. Furthermore, the registration of "FIH Mobile Limited 富智康集團有限公司" as the new English and Chinese names of the Company in Hong Kong under Part XI of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) has become effective from 24 June 2013.

## 2. PRINCIPAL ACCOUNTING POLICIES

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

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2013 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2012.

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

| | |
|---|---|
| Amendments to IFRSs | Annual improvements to IFRSs 2009–2011 cycle; |
| Amendments to IFRS 7 | Disclosures – Offsetting financial assets and financial liabilities; |
| Amendments to IFRS 10, IFRS 11 and IFRS 12 | Consolidated financial statements, joint arrangements and disclosure of interests in other entities: Transition guidance; |
| IFRS 10 | Consolidated financial statements; |
| IFRS 11 | Joint arrangements; |
| IFRS 12 | Disclosure of interests in other entities; |
| IFRS 13 | Fair value measurement; |
| IAS 19 (as revised in 2011) | Employee benefits; |
| IAS 28 (as revised in 2011) | Investments in associates and joint ventures; |
| Amendments to IAS 1 | Presentation of items of other comprehensive income; and |
| IFRIC 20 | Stripping costs in the production phase of a surface mine. |

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### IFRS 13 "Fair Value Measurement"

The Group has applied IFRS 13 for the first time in the current interim period. IFRS 13 establishes a single source of guidance for, and disclosures about, fair value measurements, and replaces those requirements previously included in various IFRSs. Consequential amendments have been made to IAS 34 to require certain disclosures to be made in the interim condensed consolidated financial statements. The scope of IFRS 13 is broad, and applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, subject to a few exceptions. IFRS 13 contains a new definition for 'fair value' and defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, IFRS 13 includes extensive disclosure requirements. In accordance with the transitional provisions of IFRS 13, the Group has applied the new fair value measurement and disclosure requirements prospectively. Disclosures of fair value information are set out in note 22.

### Amendments to IAS 1 "Presentation of items of other comprehensive income"

The amendments to IAS 1 "Presentation of items of other comprehensive income" introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to IAS 1, a 'statement of comprehensive income' is renamed as a 'statement of profit or loss and other comprehensive income'. The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require items of other comprehensive income to be grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes.

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

### 3. SEGMENT INFORMATION

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

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

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

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

| | Six months ended | |
|---|---|---|
| | **30.6.2013** | 30.6.2012 |
| | ***US$'000*** | *US$'000* |
| | **(unaudited)** | (unaudited) |
| Segment revenue (external sales) | | |
| Asia | **1,444,536** | 1,436,406 |
| Europe | **559,767** | 487,774 |
| America | **471,992** | 579,915 |
| Total | **2,476,295** | 2,504,095 |
| Segment profit (loss) | | |
| Asia | **95,203** | (10,622) |
| Europe | **8,386** | (1,781) |
| America | **41,499** | (3,521) |
| | **145,088** | (15,924) |
| Other income, gains and losses | **63,512** | 61,242 |
| General and administrative expenses | **(89,597)** | (110,108) |
| Research and development expenses | **(76,247)** | (94,429) |
| Impairment loss recognised for property, plant and equipment | **–** | (54,425) |
| Interest expense on bank borrowings | **(2,807)** | (6,544) |
| Share of (loss) profits of associates | **(65)** | 323 |
| Share of profit (loss) of joint ventures | **485** | (24) |
| Profit (loss) before taxation | **40,369** | (219,889) |

**3. SEGMENT INFORMATION** *(Continued)*

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

**4. INCOME TAX EXPENSE**

The charge comprises:

| | Six months ended | |
|---|---|---|
| | **30.6.2013** | 30.6.2012 |
| | ***US$'000*** | *US$'000* |
| | **(unaudited)** | (unaudited) |
| Current tax: | | |
| Hong Kong | **–** | – |
| Other jurisdictions | **14,592** | 12,590 |
| | **14,592** | 12,590 |
| Under(over)provision in prior periods: | | |
| Hong Kong | **1,253** | – |
| Other jurisdictions | **1,753** | (1,909) |
| | **3,006** | (1,909) |
| Deferred tax *(note 12)* | | |
| Current period | **5,536** | (6,442) |
| | **23,134** | 4,239 |

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

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

## 4. INCOME TAX EXPENSE *(Continued)*

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. The applicable tax rate for current period was 25% (2012: 25%). Pursuant to the relevant laws and regulations in the PRC, one of the Company's PRC subsidiaries is exempted from PRC income tax for two years starting from 2009, which was its first profit-making year, followed by a 50% reduction for next three years. In addition, one of the Company's subsidiaries was awarded with the Advanced–Technology Enterprise Certificate and entitled for a tax reduction from 25% to 15% for 2013 and 2014.

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

## 5. PROFIT (LOSS) FOR THE PERIOD

| | **Six months ended** | |
|---|---|---|
| | **30.6.2013** | 30.6.2012 |
| | ***US$'000*** | *US$'000* |
| | **(unaudited)** | (unaudited) |
| Profit (loss) for the period has been arrived at after charging (crediting): | | |
| Write down of inventories to net realisable value | **12,364** | 24,736 |
| Amortisation of prepaid lease payments (included in general and administrative expenses) | **1,068** | 561 |
| Cost of inventories recognised as expense | **2,360,474** | 2,511,045 |
| Provision for warranty | **3,020** | 5,491 |
| Depreciation of property, plant and equipment | **77,237** | 108,059 |
| Loss on disposal and write off of property, plant and equipment | **12,572** | 4,363 |
| Impairment loss recognised (reversed) in respect of trade receivables | **80** | (4,733) |
| Interest income from bank deposits | **(24,886)** | (27,295) |
| Gain on partial disposal of an associate *(note 10)* | **–** | (2,685) |
| Gain on loss of control over a subsidiary *(note 9)* | **–** | (19) |

## 6. DIVIDEND

No dividend was paid, declared or proposed for the six months ended 30 June 2013 (for the six months ended 30 June 2012: Nil). The directors do not recommend the payment of an interim dividend.

## 7. EARNINGS (LOSS) PER SHARE

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

| | Six months ended | |
|---|---|---|
| | **30.6.2013** | 30.6.2012 |
| | ***US$'000*** | *US$'000* |
| | **(unaudited)** | (unaudited) |
| **Earnings (loss) attributable to the owners of the Company** | | |
| Earnings (loss) for the purposes of basic and diluted earnings (loss) per share | **17,659** | (226,069) |

| | Six months ended | |
|---|---|---|
| | **30.6.2013** | 30.6.2012 |
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share | **7,432,499,687** | 7,298,516,893 |
| Effect of dilutive potential ordinary shares relating to outstanding share options and share awards issued by the Company | **15,263,482** | – |
| Weighted average number of ordinary shares for the purpose of diluted earnings (loss) per share | **7,447,763,169** | 7,298,516,893 |

The computation of diluted loss per share for the period ended 30 June 2012 does not assume the exercise of the Company's share options and share awards as the exercise of the outstanding share options and 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$29,896,000 (2012: US$26,368,000).

In addition, the Group disposed and write off of certain property, plant and equipment with a carrying amount of US$26,048,000 (2012: US$49,673,000) for proceeds of US$13,476,000 (2012: US$45,310,000), resulting in a loss on disposal and write off of US$12,572,000 (2012: US$4,363,000).

## 8. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT *(Continued)*

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 2013, the management considers there is no indicator for the carrying amount of property, plant and equipment 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 was 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 was recognised during the period ended 30 June 2012.

## 9. LOSS OF CONTROL OVER A SUBSIDIARY

During the period ended 30 June 2012, the Company entered into an agreement with Ways Technical Corp., Ltd. (“Ways Technical”), an associate of the Group, that Ways Technical’s wholly-owned subsidiary namely 精泉科技股份有限公司 (“Ways Subsidiary”) subscribed 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 had 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 joint venture of the Group after the transaction and was accounted for using the equity method (see note 11 for details).

## 9. LOSS OF CONTROL OVER A SUBSIDIARY *(Continued)*

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 joint venture | (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.

## 10. INTERESTS IN ASSOCIATES

| | **30.6.2013** | 31.12.2012 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| | **(unaudited)** | (audited) |
| Cost of investments in associates, less impairment | | |
| Listed in Taiwan | **19,572** | 19,572 |
| Unlisted | **6,935** | 6,935 |
| Share of post-acquisition profits and other comprehensive income, net of dividend received | **5,004** | 5,433 |
| | **31,511** | 31,940 |

## 10. INTERESTS IN ASSOCIATES *(Continued)*

During the period ended 30 June 2012, the Group disposed of certain interests in an associate, Ways Technical, a limited company established in Taiwan and its shares are traded on the Taiwan OTC Exchange at a total consideration of US$8,015,000. Accordingly, the Group's interest in Ways Technical 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. At 31 December 2012 and 30 June 2013, the Group's interest in Ways Technical is 13.04%. In the opinion of the directors, the Group is able to exercise significant influence over Ways Technical because it has the right to appoint two out of six directors of Ways Technical.

## 11. INTERESTS IN JOINT VENTURES

| | **30.6.2013** | 31.12.2012 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| | **(unaudited)** | (audited) |
| Cost of unlisted investment in joint ventures | **7,265** | 4,205 |
| Share of post-acquisition profits and other comprehensive expense | **(71)** | (464) |
| | **7,194** | 3,741 |

At 30 June 2013 and 31 December 2012, the Group had interests in the following joint ventures:

| Name of joint venture | Form of entity | Place of incorporation/ registration | Principal place of operation | Class of shares held | Proportion of nominal value of issued capital held by the Group **30.6.2013** | Proportion of nominal value of issued capital held by the Group 31.12.2012 | Proportion of voting power held by the Group **30.6.2013** | Proportion of voting power held by the Group 31.12.2012 | Principal activities |
|---|---|---|---|---|---|---|---|---|---|
| 位吉股份有限公司 (also known as Ways Transworld Inc.) | Limited company | Taiwan | Taiwan | Ordinary | **50%** | 50% | **50%** | 50% | Designing and manufacturing of plastic molds for handheld devices |
| FIH RadioShack (Asia) Retail Holdings Limited ("FIH RadioShack") | Limited company | Hong Kong | PRC | Ordinary | **51%** | – | **60%** *(Note)* | – | Sale of consumer electronics products and ancillary services |

*Note:* The Group holds 51% of the paid-in capital and has the right to appoint three out of five directors of FIH RadioShack. However, FIH RadioShack is jointly controlled by the Group and the other venturer by virtue of contractual arrangements and unanimous consent of the parties sharing control is required. Therefore, FIH RadioShack is classified as a joint venture of the Group.

## 12. 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<br>*US$'000* | Warranty provision<br>*US$'000* | Accelerated tax depreciation<br>*US$'000* | Tax losses<br>*US$'000* | Deferred income<br>*US$'000* | Others<br>*US$'000*<br>*(Note)* | Total<br>*US$'000* |
|---|---|---|---|---|---|---|---|
| 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) |
| At 1 January 2013 | **(5,377)** | **(1,300)** | **2,484** | **(5,962)** | **(8,533)** | **(13,349)** | **(32,037)** |
| (Credit) charge to profit or loss for the period | **678** | **(172)** | **49** | **6,011** | **539** | **(1,569)** | **5,536** |
| Exchange adjustments | **(183)** | **(24)** | **(237)** | **(49)** | **(140)** | **(354)** | **(987)** |
| At 30 June 2013 | **(4,882)** | **(1,496)** | **2,296** | **-** | **(8,134)** | **(15,272)** | **(27,488)** |

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

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

| | **30.6.2013**<br>***US$'000***<br>**(unaudited)** | 31.12.2012<br>*US$'000*<br>(audited) |
|---|---|---|
| Deferred tax assets | **(37,325)** | (41,127) |
| Deferred tax liabilities | **9,837** | 9,090 |
| | **(27,488)** | (32,037) |

## 12. DEFERRED TAXATION *(Continued)*

At 30 June 2013, the Group has unused tax losses of US$902,050,000 (31.12.2012: US$974,720,000) available for offset against future profits. At 31 December 2012, a deferred tax asset had been recognised in respect of approximately US$47,700,000 of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses of US$902,050,000 (31.12.2012: US$927,020,000) 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 2018.

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$825,788,000 (31.12.2012: US$748,213,000) 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.

## 13. TRADE AND OTHER RECEIVABLES

| | **30.6.2013** | 31.12.2012 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| | **(unaudited)** | (audited) |
| Trade receivables | **878,469** | 932,799 |
| Other receivables, deposits and prepayments | **168,726** | 199,509 |
| | **1,047,195** | 1,132,308 |

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 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:

| | **30.6.2013** | 31.12.2012 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| | **(unaudited)** | (audited) |
| 0–90 days | **854,691** | 908,499 |
| 91–180 days | **14,216** | 15,948 |
| 181–360 days | **4,657** | 4,793 |
| Over 360 days | **4,905** | 3,559 |
| | **878,469** | 932,799 |

## 14. 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 agreed to sell in a series and the Purchaser 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 was 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.

At 30 June 2012, the Group had already disposed of 40.12% equity interest in Guang Ming, of which 15.12% equity interest in Guang Ming to the Purchaser with consideration of RMB132,867,000 (equivalent to approximately US$21,006,000) was disposed of during the six months ended 30 June 2012. It was settled by cash received of RMB102,554,000 (equivalent to approximately US$16,592,000) and a deposit received in 2011 of RMB30,313,000 (equivalent to approximately US$4,414,000). In addition, 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 2011 was refunded to the Purchaser.

At 31 December 2012, the Group had already disposed of all remaining interest held in Guang Ming to the Purchaser.

## 15. TRADE AND OTHER PAYABLES

| | **30.6.2013** | 31.12.2012 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| | **(unaudited)** | (audited) |
| Trade payables | **657,837** | 870,617 |
| Accruals and other payables | **419,057** | 332,838 |
| | **1,076,894** | 1,203,455 |

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

| | **30.6.2013** | 31.12.2012 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| | **(unaudited)** | (audited) |
| 0–90 days | **625,718** | 841,797 |
| 91–180 days | **26,321** | 24,630 |
| 181–360 days | **3,674** | 503 |
| Over 360 days | **2,124** | 3,687 |
| | **657,837** | 870,617 |

## 16. BANK BORROWINGS

| | **30.6.2013** | 31.12.2012 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| | **(unaudited)** | (audited) |
| Bank loans | **520,621** | 214,901 |
| Analysis of bank borrowings by currency: | | |
| US$ | **449,668** | 214,901 |
| Japanese Yen | **70,953** | – |
| | **520,621** | 214,901 |

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 0.78% to 2.77% (31.12.2012: 0.89% to 3.12%) per annum.

## 17. PROVISION

| | Warranty provision US$'000 |
|---|---|
| At 1 January 2012 | 28,395 |
| Exchange adjustments | 514 |
| Provision for the year | 7,012 |
| Utilisation of provision | (5,710) |
| At 31 December 2012 | 30,211 |
| Exchange adjustments | (299) |
| Provision for the period | 3,020 |
| Utilisation of provision | (3,526) |
| At 30 June 2013 | 29,406 |

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.

## 18. SHARE CAPITAL

| | Number of shares | Amount US$'000 |
|---|---|---|
| Ordinary shares of US$0.04 each, authorised: | | |
| Balance at 1 January 2012, 31 December 2012 and 30 June 2013 | 20,000,000,000 | 800,000 |
| Ordinary shares of US$0.04 each, issued and fully paid: | | |
| Balance at 1 January 2012 | 7,224,674,714 | 288,987 |
| Exercise of share options *(note 21(a))* | 29,548,295 | 1,182 |
| Issue pursuant to a share scheme *(note 21(b))* | 58,104,335 | 2,324 |
| Balance at 31 December 2012 | 7,312,327,344 | 292,493 |
| Exercise of share options *(note 21(a))* | 6,514,000 | 260 |
| Issue pursuant to a share scheme *(note 21(b))* | 139,121,748 | 5,565 |
| Balance at 30 June 2013 | 7,457,963,092 | 298,318 |

## 19. DEFERRED INCOME

| | **30.6.2013** | 31.12.2012 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| | **(unaudited)** | (audited) |
| Government subsidies | **33,142** | 33,483 |

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

## 20. CAPITAL COMMITMENTS

| | **30.6.2013** | 31.12.2012 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| | **(unaudited)** | (audited) |
| Commitments for the acquisition of property, plant and equipment contracted but not provided for | **35,649** | 27,171 |

## 21. SHARE-BASED PAYMENT TRANSACTIONS

### (a) Equity-settled share option scheme

The Company has a share option scheme for eligible employees of the Group, including directors of the Company and its subsidiaries. Details of the share options outstanding during the current period are as follows:

| Option type | Outstanding at 1.1.2013 | Granted during the period | Exercised during the period | Lapsed during the period | Cancelled during the period | Outstanding at 30.6.2013 |
|---|---|---|---|---|---|---|
| 2011 | 206,374,634 | – | (6,514,000) | (8,742,604) | – | 191,118,030 |
| | 206,374,634 | – | (6,514,000) | (8,742,604) | – | 191,118,030 |

116,694,049 share options are exercisable as at 30 June 2013 (31.12.2012: 51,323,616).

The weighted average closing price of the Company's shares immediately before the dates on which the options were exercised during the current period was US$0.53 (equivalent to HK$4.11).

The Group recognised total expense of US$1,466,000 (for the six months ended 30 June 2012: US$3,998,000) for the six months ended 30 June 2013 in relation to the share options granted by the Company.

## 21. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

### (b) Other share-based payment plan

Pursuant to a share scheme adopted by the Company on 12 January 2005 and amended by shareholders' resolution and the board resolution dated 4 August 2006 and 29 October 2009 respectively (the "Share Scheme"), the Company may grant free shares to the directors or employees of the Company or its subsidiaries or third party service providers including employees of Hon Hai and any of its subsidiaries.

Pursuant to the approval of the board of directors of the Company on 29 December 2011, the Company offered 62,423,773 ordinary shares to certain employees pursuant to the Share Scheme, of which 48,484,394 ordinary shares were granted without lock-up periods, while the remaining shares were granted with lock-up periods ranging from one to two years from the grant date. No consideration was payable on the grant of the shares. 58,104,335 ordinary shares were subsequently issued on 5 January 2012 and 4,319,438 ordinary shares were purchased by the trustee of the Share Scheme from the stock market in January 2012.

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

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

The Group recognised total expense of US$5,849,000 (for the six months ended 30 June 2012: US$4,931,000) for the current period in relation to the shares granted under the Share Scheme.

## 22. 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 is observable.

- 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).

| Financial assets/ financial liabilities | Fair value as at | | Fair value hierarchy | Valuation technique(s) and key inputs | Significant unobservable input(s) | Relationship of unobservable inputs to fair value |
|---|---|---|---|---|---|---|
| | **30.6.2013** | 31.12.2012 | | | | |
| | ***US$'000*** | *US$'000* | | | | |
| Forward foreign exchange contracts classified as other payables in the condensed consolidated statement of financial position | **Liabilities – 1,467** | Liabilities – 1,374 | Level 2 | Fair value derived from observable forward exchange rates at the end of the reporting period | 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.

## 23. RELATED PARTY DISCLOSURES

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

| | Six months ended | |
|---|---|---|
| | **30.6.2013** | 30.6.2012 |
| | ***US$'000*** | *US$'000* |
| | **(unaudited)** | (unaudited) |
| Hon Hai: | | |
| Sales of goods | **136** | 36 |
| Purchase of goods | **18,179** | 4,550 |
| Sales of property, plant and equipment | **29** | 571 |
| Purchase of property, plant and equipment | **25** | 65 |
| Subcontracting income | **12,673** | 2,788 |
| Consolidated services and subcontracting expense | **2,137** | 9,299 |
| General services income | **94** | – |
| General services expense | **100** | 160 |
| Lease expense | **2** | – |
| Subsidiaries of Hon Hai: | | |
| Sales of goods | **31,099** | 30,507 |
| Purchase of goods | **45,770** | 103,047 |
| Sales of property, plant and equipment | **9,294** | 26,829 |
| Purchase of property, plant and equipment | **9,544** | 6,872 |
| Lease income | **354** | 500 |
| Lease expense | **586** | 883 |
| Subcontracting income | **52,048** | 9,592 |
| Consolidated services and subcontracting expense | **13,333** | 7,101 |
| General services income | **296** | 154 |
| General services expense | **5,355** | 21,575 |
| Associates of Hon Hai: | | |
| Sales of goods | **1,373** | 1,994 |
| Purchase of goods | **48,602** | 53,915 |
| Sales of property, plant and equipment | **535** | 10,327 |
| Purchase of property, plant and equipment | **2,110** | 2,495 |
| Lease income | **14** | – |
| Lease expense | **38** | 42 |
| Subcontracting income | **200** | 807 |
| Consolidated services and subcontracting expense | **2,654** | 1,416 |
| General services income | **41** | 85 |
| General services expense | **65** | 818 |

In addition to the above, during the current period, the Group also acquired 100% interest in First Honest Enterprises Limited, an inactive company at the time of acquisition, from SMS Marketing Service (Asia) Co., Ltd., a subsidiary of Hon Hai, for a nominal consideration of HK$1 for the purpose of the formation of a joint venture with a third party for the sale of consumer electronic products and ancillary services in the PRC.

## 23. 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:

| | 30.6.2013 | 31.12.2012 |
|---|---|---|
| | *US$'000* | *US$'000* |
| | (unaudited) | (audited) |
| Trade receivables: | | |
| Hon Hai | **5,434** | 3,810 |
| Subsidiaries of Hon Hai | **72,866** | 90,663 |
| Associates of Hon Hai | **2,823** | 4,029 |
| | **81,123** | 98,502 |
| Other receivables: | | |
| Hon Hai | **195** | 288 |
| Subsidiaries of Hon Hai | **223** | 579 |
| Associates of Hon Hai | **–** | 456 |
| | **418** | 1,323 |
| | **81,541** | 99,825 |
| Trade payables: | | |
| Hon Hai | **5,669** | 15,565 |
| Subsidiaries of Hon Hai | **61,635** | 147,322 |
| Associates of Hon Hai | **30,982** | 65,499 |
| | **98,286** | 228,386 |
| Other payables: | | |
| Hon Hai | **116** | 2,455 |
| Subsidiaries of Hon Hai | **56** | 1,298 |
| Associates of Hon Hai | **18** | 11 |
| | **190** | 3,764 |
| | **98,476** | 232,150 |

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

## 23. 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 | |
|---|---|---|
| | **30.6.2013** | 30.6.2012 |
| | ***US$'000*** | *US$'000* |
| | **(unaudited)** | (unaudited) |
| Short-term benefits | **462** | 481 |
| Share-based payments | **97** | 107 |
| | **559** | 588 |

## 24. APPROVAL

The condensed consolidated financial statements on pages 4 to 30 were approved and authorised for issue by the board of directors of the Company on 12 August 2013.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Review of Results and Operations

For the six-month period ended 30 June 2013, the Group recorded a 1.1% year-on-year decrease in consolidated turnover of US$2,476 million (2012: US$2,504 million). Profit for the period attributable to owners of the Company was US$18 million compared to a loss of US$226 million for the same period last year. Basic earning-per-share for the period was US0.24 cents.

The increase in profit is mainly attributable to the Group's improved gross profit margins principally as a result of the corresponding improvement in the Group's yield and operation efficiency, as well as control of the Group's cost of sales and general and administrative expenses and optimisation of its research and development resources. Also, no asset impairment loss was recorded during the period (2012: US$56 million).

During the extremely difficult year of 2012 in which the market share of individual player was reshuffled and the market became even more competitive leading to lower demands from some of the Group's major customers, we had been spending efforts to develop new customers (especially in Mainland China) in order to diversify our customer base. During the first six months of 2013, there had been favourable client mix shift amid fierce competition. Sales to the Asia segment remained strong as a result of such new customer development efforts whilst sales to the America segment decreased as a result of the customer mix shift. Coupled with continuous cost rationalisation and resources optimisation, we succeeded to improve profitability. The Asia segment performed well as a result of such cost down initiatives and site consolidation efforts. With products from Mainland China of lower manufacturing costs as a result of cost rationalisation and the earnings contributed by repair services business in Mexico and the United States, the America segment's performance became better. The Europe segment's performance was comparatively sluggish despite increase in the sales to this segment as the European economy was not recovered yet and also, we had to adopt more competitive pricing to maintain customers' orders.

Actually, the fierce market share struggles amongst global OEM (original equipment manufacturing) brands and new entrants had continued to make the global handset EMS (electronics manufacturing services) market difficult and caused pricing pressure for the Group's products. To remain cost competitive, we have been continuously controlling manufacturing overhead to attain better operating leverage and improving efficiency and yield rate through automation using robot arms and industrial engineering methods like production cell management. We also have successfully divested less-utilised equipment and invested in capital expenditure on a needed basis and reduced general and administrative expenses so as to trim down some of our fixed costs and improve our capacity utilisation. The right-sizing of our overseas sites has basically been completed and consolidation of some of the manufacturing capabilities in Mainland China continued. All such initiatives aimed to streamline the cost structure and keep the operation lean and agile and allowed flexible pricing in order to enable the Group to compete in the dynamic market.

## Review of Results and Operations *(Continued)*

To differentiate the Group from its competitors, our commitment to deploy meaningful resources in R&D (research and development) proved to work. To cope with business changes and market volatility, we have to continue to keep our investment in design engineering resources for smart phones in Mainland China and Taiwan and curtail investments in other areas. Such resources were highly appreciated by our existing and new customers as we have been able to tremendously enrich their respective product portfolios and shorten their products' time-to-market thus enhancing such products' competitiveness. Given our unique competitive position in the ODM (original design manufacturing)/EMS universe including our accumulated experience on product design and development and manufacturing, comprehensive production sites worldwide, competitive pricing and reliable quality, we have succeeded in developing more smart phone ODM business with our existing and new customers. At the same time, our aggressive business development and customer diversification efforts, especially in the Asia area, remain a top priority to approach potential customers and penetrate new customers by providing one-stop-shop and end-to-end solutions from design, manufacturing, logistics to repair services with a view to developing a more comprehensive and extensive customer base. Finally, we have re-organised our business operations into smaller and responsive teams to cope with volatile market conditions and serve customers better.

## Liquidity and Financial Resources

As at 30 June 2013, the Group had a cash balance of US$2,266 million (2012: US$1,917 million). The cash balance is expected to be able to finance its operations. The Group's gearing ratio, expressed as a percentage of interest bearing external borrowings of US$521 million (2012: US$215 million) over total assets of US$5,310 million (2012: US$5,088 million), was 9.81% (2012: 4.23%). Most of the external borrowings were denominated in US Dollars, and some of them were denominated in 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 0.78% to 2.77% per annum with original maturity of one month to six months.

As at 30 June 2013, the Group's cash and cash equivalents were mainly held in US Dollars and RMB.

Net cash from operating activities for the six months ended 30 June 2013 was US$139 million.

## Liquidity and Financial Resources *(Continued)*

Net cash used in investing activities for the six months ended 30 June 2013 was US$120 million, of which, mainly, US$30 million represented the expenditures on property, plant and equipment related to the facilities in the Group's major sites in the PRC, US$100 million represented net increase in bank deposits, US$3 million represented capital contribution to a joint venture, US$0.2 million represented deposits paid for acquisition of property, plant and equipment and US$13 million represented proceeds from disposal of property, plant and equipment.

Net cash from financing activities for the six months ended 30 June 2013 was US$312 million, primarily due to net increase in bank borrowings of US$309 million and proceeds of US$3 million from the issue of shares to employees.

## Exposures to Currency Risk and Related Hedges

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

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

## Capital Commitment

As at 30 June 2013, the capital commitment of the Group was US$35.6 million (2012: US$27.2 million). Usually, the capital commitment will be funded by cash generated from operations.

## Pledge of Assets

As at 31 December 2012, a subsidiary of the Company pledged its corporate assets of approximately US$0.3 million to secure general banking facilities granted to the Group. There was no pledge of the Group's assets as at 30 June 2013.

## Outlook

Looking forward, global economy has not recovered yet and the United States Federal Reserve's timing to scale back the size of its asset purchase program may affect global economy. Slower macro environment may drag down global demand of handsets and continue to affect the handset ecosystem and our business. Customers' trend of outsourcing also directly affects our business. Market share reshuffling among our customers will continue and it will need time and efforts to develop new customers and new businesses for manufacturing other mobile devices. Orders of new customers will need time to be sizeable enough to boost utilisation significantly. It is in general expected that the growth of the smart phone market is to be in the mid-to-low-end sector and we will dedicate resources to this market segment of potential. Both pricing pressure triggered by end customers and cost pressure from labour costs and raw material costs and overheads and production yield performance may result in margin fluctuation.

To cope with such difficulties, our strategy is to continue to optimise investment in R&D capabilities and manufacturing technologies which are our core competence, focus on existing and new customers as well as potential customers in the smart-phone sector and further diversify our customer base through leveraging on our competence and capabilities in R&D and value-added offerings so as to maximise asset utilisation. At the same time, we will continue to take proactive actions on manufacturing automation, vertical integration, production yield improvement, product quality enhancement, cost rationalisation, staff localisation, resources sharing and optimisation, site consolidation and right-sizing, know-how building and operating expenses control so as to operate from a leaner base and remain price-competitive and agile and gain market share amid fierce competition. Such efforts have been reflected in the significant improvement of performance in the first half of 2013, and we strive to attain continuous improvement through the joint effort of the dedicated management team and staff.

## Employees

As at 30 June 2013, the Group had a total of 86,358 (31.12.2012: 70,051) employees. Total staff costs incurred during the six months ended 30 June 2013 amounted to US$239 million (30.6.2012: US$251 million). The Group offers a comprehensive remuneration policy which is reviewed by the management on a regular basis.

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

# OTHER INFORMATION

## DIRECTORS

Mr. TONG Wen-hsin was appointed as the Chairman of the Company with effect from 1 January 2013. He was appointed and resigned as a director of FIH RadioShack and First Honest Enterprises Limited respectively, being subsidiaries of the Company, with effect from 31 January 2013 and 28 June 2013 respectively. He also resigned as a director of Ways Technical (which is a limited company incorporated in Taiwan and whose shares are traded on the Taiwan OTC Exchange) with effect from 25 June 2013.

Dr. LEE Jer Sheng, an executive director of the Company, was appointed as a director of Everfame Technologies Limited, being a subsidiary of the Company, with effect from 10 July 2013. Pursuant to the approval of the board of directors of the Company (the "Board") on 22 April 2013, the Company granted 663,807 shares to Dr. Lee under the Company's share scheme and his appointment was renewed for a term of three years ending on 7 June 2016 subject to retirement and re-election under the articles of association of the Company. He is entitled to annual emoluments consisting of basic salary of NTD1.68 million (equivalent to approximately US$55,944) 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.

Mr. LEE Jin Ming retired as a non-executive director of the Company with effect from 30 May 2013. It followed that he ceased to be the member of the audit committee, remuneration committee and nomination committee respectively of the Company with effect from 30 May 2013.

Dr. LEE Kuo Yu was appointed as a non-executive director of the Company with effect from 30 May 2013. She was also appointed as the member of the audit committee, remuneration committee and nomination committee respectively of the Company with effect from 30 May 2013.

Pursuant to the approval of the Board on 13 June 2013, the appointment of Dr. Daniel Joseph MEHAN, an independent non-executive director of the Company, was renewed for a term of three years ending on 23 July 2016 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$17,500 (equivalent to approximately US$2,255.75) per month (less any necessary statutory deductions).

## OTHER INFORMATION *(Continued)*

## DISCLOSURE OF INTERESTS

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

As at 30 June 2013, the interests and short positions, if any, of each director and chief executive of the Company in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the directors and chief executive were taken or deemed to have under such provisions of the SFO), or which were required to be and were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") adopted by the Company were as follows:

| Name of director | Name of corporation | Capacity/ Nature of interest | Total number of ordinary shares | Approximate percentage of interest in the Company/ associated corporation |
|---|---|---|---|---|
| TONG Wen-hsin *(Note 1)* | Company | Personal Interest | 1,403,305 | 0.0188% |
| | Hon Hai | Personal Interest | 48,059 | 0.0004% |
| CHIH Yu Yang | Company | Personal Interest | 3,786,396 | 0.0508% |
| | Hon Hai | Personal Interest | 258,198 | 0.0022% |
| | Chiun Mai Communication Systems, Inc. *(Note 2)* | Personal Interest | 1,000 | 0.0007% |
| LEE Jer Sheng *(Note 3)* | Company | Personal Interest | 2,563,369 | 0.0344% |
| | | Jointly-held Interest | 100,000 | 0.0013% |
| LEE Kuo Yu | Hon Hai | Personal Interest | 195,225 | 0.0016% |

## DISCLOSURE OF INTERESTS *(Continued)*

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

*Notes:*

1. 1,403,305 shares include 1,346,063 shares which are issuable upon exercise of share options granted under the share option scheme of the Company.

2. The Company indirectly, through its wholly-owned subsidiaries, holds approximately 85.79% of the entire issued share capital of Chiun Mai Communication Systems, Inc. (formerly known as Chi Mei Communication Systems, Inc.), a company incorporated in Taiwan.

3. 2,563,369 shares include 2,263,960 shares which are issuable upon exercise of share options granted under the share option scheme of the Company and upon vesting of the share grants granted under the share scheme of the Company. 100,000 shares are beneficially and jointly owned by Dr. LEE Jer Sheng and Ms. TING Kuei Feng, the spouse of Dr. LEE Jer Sheng. Accordingly, Dr. LEE Jer Sheng is deemed to be interested in 100,000 shares which are jointly held by him and his spouse for the purposes of the SFO.

Save as disclosed above, none of the directors or chief executive of the Company had, as at 30 June 2013, 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.

## 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 2013, 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 | 68.13% |
| Hon Hai *(Note)* | Interest of a controlled corporation | 5,081,034,525 | 68.13% |

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

Save as disclosed above, as at 30 June 2013, the Company had not been notified by any persons (other than the directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would be required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were required to be and were recorded in the register required to be kept by the Company under Section 336 of the SFO.

## SHARE OPTION SCHEME

Movements of the share options granted under the Company's share option scheme during the six months ended 30 June 2013 were as follows:

| Category of grantee | Outstanding at the beginning of the period | Date of grant during the period | Granted during the period | Vesting period | Exercise price | Exercised during the period | Lapsed/ Expired during the period | Cancelled during the period | Outstanding at the end of the period |
|---|---|---|---|---|---|---|---|---|---|
| Directors | | | | | | | | | |
| TONG Wen-hsin | 1,346,063 | – | – | each year on 1 January from 2012 to 2014 | HK$3.62 | – | – | – | 1,346,063 |
| LEE Jer Sheng | 1,701,553 | – | – | each year on 1 January from 2012 to 2014 | HK$3.62 | – | – | – | 1,701,553 |
| Employees | 203,327,018 | – | – | each year on 1 January from 2012 to 2014 | HK$3.62 | (6,514,000) | (8,742,604) | – | 188,070,414 |
| | 206,374,634 | | – | | | (6,514,000) | (8,742,604) | – | 191,118,030 |

Apart from the share option scheme above and the Company's share scheme, at no time during the six months ended 30 June 2013 was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of acquisitions of shares in, or debenture of, the Company or any other body corporate.

## DIVIDEND

The directors did not recommend the payment of an interim dividend for the six months ended 30 June 2013.

## 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 2013.

## OTHER INFORMATION *(Continued)*

## RESERVES

Movements in reserves of the Group during the six months ended 30 June 2013 are set out on page 9.

## AUDIT COMMITTEE

The Company has established and maintained an audit committee in accordance with the requirements of the Listing Rules, particularly the Corporate Governance Code (the "CG Code") 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 2013 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 2013.

## 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 2013 to 30 June 2013.

As an enhancement of the Company's corporate governance practices and for the purpose of complying with the amendments to the CG Code regarding board diversity (which will become effective from 1 September 2013), on 12 August 2013, the Board adopted a board diversity policy, the revised terms of reference for the Company's nomination committee and the revised nomination procedures and process and criteria to select and recommend candidates for directorship.

On behalf of the Board
**TONG Wen-hsin**
*Chairman*

Hong Kong, 12 August 2013